2002 Ridley Inc. Annual Report

RIDLEY Inc.

Ridley Inc. Profile

Ridley Inc. is one of the largest commercial animal nutrition businesses in North America, serving customers mainly in the United States and Canada. Ridley manufactures and/or distributes a full range of animal nutrition products including formulated feeds, premixes, supplements, low-moisture blocks, animal health products, feed ingredients, animal care and livestock handling equipment.

Ridley's customers include livestock breeders and growers who produce meat, dairy and poultry products that are processed into consumer food products, as well as consumers who own or breed animals for recreational or companionship purposes. We create value for our customers by helping them to be more profitable in their own businesses through applied animal science and production technology.

Ridley's operations in the United States include 29 mills with an annual production capacity of 1,535,000 tons (1,393,000 metric tonnes) of feed. Its Canadian operations comprise 15 mills with annual production capacity of 890,000 metric tonnes. Ridley's products are marketed under a number of highly regarded trade names, including Hubbard Feeds, Feed-Rite, Wayne Feeds, Ridley Block Operations, Ridley Feed Ingredients, Daco Western Canada, Farmix, McCauley Bros., Inc. and CRYSTALYX®.

The Cotswold Swine Genetics division is a leader in the swine genetics industry, marketing its advanced Cotswold swine breeding stock and services to pork-producing customers in the United States and Canada.

Ridley's strategy for increasing shareholder value is to build on its leadership position in animal nutrition markets, and to develop growth opportunities in related businesses where it can meet its profitability and investment return objectives as a high-quality, efficient producer.

Ridley Corporation Limited, Australia's largest livestock feed manufacturer, owns approximately 70 percent of Ridley Inc.'s outstanding shares.

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Operating Highlights

Earnings Recover

Net earnings of $15.0 million for fiscal 2002 are substantially higher than the $4.0 million for 2001, and a record for the company. Net earnings from continuing operations increased by 14.5%, to $25.3 million from $22.1 million.

Bank Debt Reduced

Ridley generated strong cash flows again in 2002, paying down bank debt by $42.3 million and strengthening the balance sheet. In the last two years, long-term debt has been reduced from $173.6 million to $98.3 million.

Quality and Food Safety

Ridley's commitment to leading the industry in the quality and safety of its products continued in 2002. All Ridley facilities are registered to the ISO 9001 quality standard. The Hubbard Feeds and Ridley Block Operations facilities are FCI certified, and this year all of the Feed-Rite facilities received HACCP (Hazard Analysis and Critical Control Points) certification. Hubbard's goal is to be HACCP certified by early fiscal 2004.

Wayne Feeds Integration

The Wayne Feeds and Hubbard Feeds product lines were consolidated in early fiscal 2002, completing the integration of the two organizations following acquisition of Wayne Feeds in March 2000. All of the synergies from this acquisition have been realized as expected.

Expansion in the Equine Market

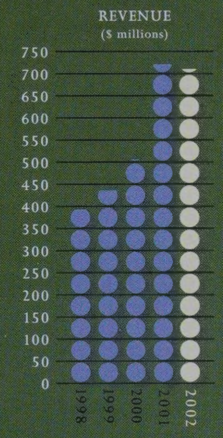
Ridley acquired a majority interest in McCauley Bros., Inc., a Kentucky manufacturer of premium quality equine feeds. The acquisition offers new growth opportunities for Ridley in a niche segment of the feed industry.

Sale of Cotswold Europe

Ridley sold its European swine genetics business in 2002, as a series of adverse events led to four successive years of losses for Cotswold Europe. The sale took place in May and Ridley recognized a loss of $5.9 million on disposal.

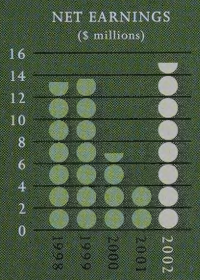
Direct Swine Exposure Reduced

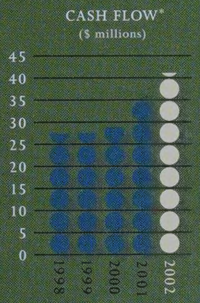
The sale of Cotswold Europe - combined with the consolidation, restructuring and downsizing of the North American Cotswold operation and the liquidation of Quality Swine Systems – has reduced Ridley's direct exposure to pork production economics by more than two-thirds.



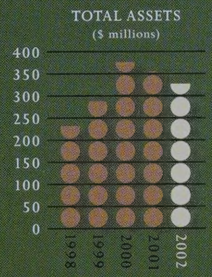
* Earnings before interest, taxes, depreciation and amortization.

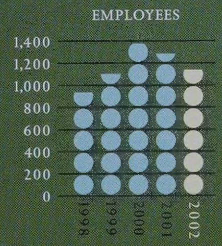
(Revenue and EBITDA include the results of discontinued operations to date of disposition.)



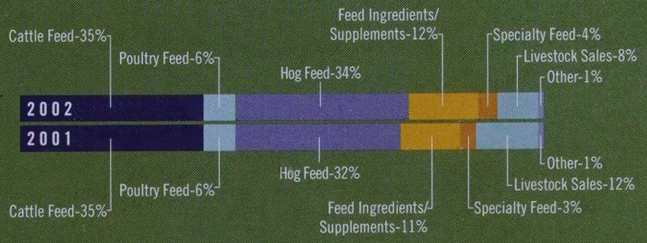


* Cash flow generated from operations before changes in non-cash working capital.

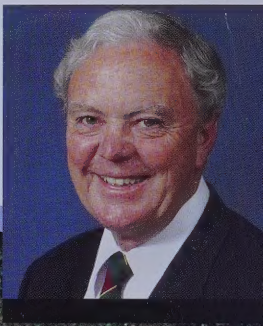




SALES BY PRODUCT LINE - FISCAL 2002 AND 2001



Dr. J.S. Keniry
Chairman



Chairman's Report

Fiscal 2002 was a challenging year for Ridley Inc., one in which the management team dealt with a number of tough issues and made some difficult decisions that will drive the company's continued success. A weakened economy, unfavorable economics for livestock production, and increasing regulatory and food safety concerns were just some of the issues affecting our industry.

We are pleased to report that the challenges were met, and the success with which Ridley charted its course is demonstrated by the strong financial results we achieved.

Ridley Inc. is reporting net earnings for fiscal 2002 of $15 million, substantially higher than the $4 million we reported for 2001, and a record for the company. Diluted earnings per share were $1.10 compared with $0.30 in 2001.

The three animal nutrition businesses, U.S. Feed Operations, Canadian Feed Operations and Ridley Block Operations, all turned in a solid performance in a demanding year, and each established a sound base for future growth. Each division placed particular emphasis again this year on careful management of its funds employed, resulting in reducing our bank debt by $42 million in 2002 and, combined with lower interest rates, allowed us to reduce interest expense by 28% in 2002, to $9.2 million from $12.8 million in 2001.

Cotswold was the major setback to our performance in 2002. The European operations continued to be impacted by Foot and Mouth disease well into fiscal 2002 and the swine industry in the U.K. has been significantly weakened. After four successive years of losses at Cotswold Europe, Ridley made the decision to divest this operation, selling the business in May and recognizing a loss on disposal of $5.9 million.

The restructuring of our Cotswold North American operations, which began in fiscal 2001, continued in fiscal 2002 with the objective of positioning it to be able to operate independently of the European operations. The business was renamed Cotswold Swine Genetics and significant steps were taken to consolidate and streamline the business and re-focus its genetics program on the needs of the North American market.

These initiatives, in combination with our complete exit from the Quality Swine Systems (QSS) commercial pork production operations, have reduced Ridley's direct ownership – and therefore its direct exposure to pork production economics – by more than two-thirds.

While we exited Cotswold Europe and QSS, Ridley continued to build its core animal nutrition assets, making investments in plant upgrades and enhancing product quality and safety, introducing new products and services, and increasing our research and development programs. These investments continued the company's efforts to expand its market reach and enhance its presence among livestock producers and feed distributors.

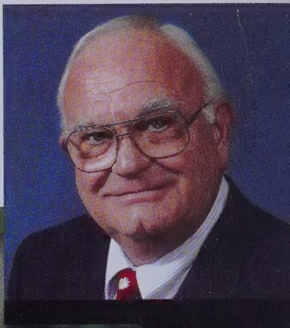
We believe that the measures taken during the past fiscal year have prepared Ridley Inc. for continued growth and prosperity in the years ahead. Ridley has aggressive plans and far-reaching goals, and we have the employees, management team and Board of Directors in place to achieve these plans and reach our goals.

In fiscal 2002, Mr. Matthew Bickford-Smith, Managing Director and CEO of Ridley Corporation Limited, joined the Ridley Inc. Board of Directors. He brings considerable skills and experience to the Board, and I welcome his input.

On behalf of the Board and the company's shareholders, I commend Ridley's management and employees for their contributions in a difficult but successful year. Their energy, commitment and dedication to growing our business have made Ridley an industry leader, and we look forward to reporting to you on our further progress for the coming year.

Dr. J.S. Keniry
Chairman

R.B. Gallaway
President &
Chief Executive Officer



President & Chief Executive Officer's Report

Ridley Inc. continued to make significant progress in fiscal 2002, with improvements being made in a number of areas critical to our success and future growth. The animal nutrition operations continued to perform well in a difficult economic environment by keeping their focus on the basic fundamentals of their business. Among our accomplishments in 2002, we:

- **Achieved net earnings of $15.0 million compared with $4.0 million in fiscal 2001. Diluted earnings per share were $1.10 in fiscal 2002 compared with $0.30 in 2001.**
- **Produced an increase of 14.5% in net earnings from continuing operations, to $25.3 million from $22.1 million in 2001.**
- **Continued to strengthen our balance sheet as we used our ability to generate strong cash flows to significantly reduce bank debt again in 2002.**
- **Took advantage of lower interest rates, combined with the reduction in bank debt, to cut interest expense by 28%, to $9.2 million in 2002 from $12.8 million in fiscal 2001.**
- **Sold the Cotswold Europe swine genetics operations and reorganized and consolidated the Cotswold operations in North America for improved performance.**

Since the acquisition of Wayne Feeds in March 2000, Hubbard Feeds (U.S. Feed Operations) has devoted a significant portion of its resources and effort to integrating the operations of Wayne Feeds into those of Hubbard Feeds. The process was completed in the fiscal 2002 first quarter, and the USFO quickly refocused on the basics of generating new sales and improving operating efficiencies. The shift in emphasis resulted in good sales volumes in virtually all species and product segments, and improvements in net margins and overhead expenses. The USFO reported an increase of 8.5% in EBIT (earnings before interest and taxes), and with a number of other operational improvements made in 2002, is poised for another excellent year in fiscal 2003.

The Canadian Feed Operations (Feed-Rite) was impacted in fiscal 2002 by the loss of feed volumes and margins resulting from Ridley's decision to liquidate the Quality Swine Systems (QSS) commercial swine production unit. Additional volumes were lost when two customers decided to construct their own feed mills. Feed-Rite's sales and marketing team responded well, replacing most of the lost margins with new business and, combined with a better product mix and lower operating expenses, Feed-Rite reported a slight increase in EBIT.

Ridley Block Operations continued to be the leading producer of low-moisture blocks with its fifth consecutive year of record volumes. Fiscal 2002 was not as favorable for feed supplementation as the year before, as grazing conditions were better, reducing demand for blocks, and molasses was in short supply and therefore more expensive, increasing production costs. Ridley Block Operations overcame these conditions by emphasizing the quality and safety of its products, with research results that show the superiority of CRYSTALYX® Brand Supplements, and by introducing innovative new products to address new market niches and reduce the seasonality of low-moisture block sales.

Cotswold was a major disappointment, posting significant losses stemming from the lingering effects of Foot and Mouth Disease in the European operations and a deteriorating hog market in North America. The continuing problems faced by Cotswold, which at the start of fiscal 2002 consisted of operations in the U.K., Germany, U.S. and Canada, led us to significantly restructure the division.

After a series of adverse events resulting in deep losses for the European business, Ridley took the decision to sell Cotswold Europe. The sale took place in May and resulted in a loss of $5.9 million, including a loss on the book value of the business plus all the associated costs of divestiture.

The remaining Cotswold operations, now based solely in North America, were renamed Cotswold Swine Genetics in fiscal 2002 and underwent significant restructuring to reduce costs, streamline operations, and focus their genetic program on the needs of North American producers.

The sale of Cotswold Europe, combined with the liquidation of QSS, have reduced Ridley's exposure to market hog price risk by more than two-thirds.

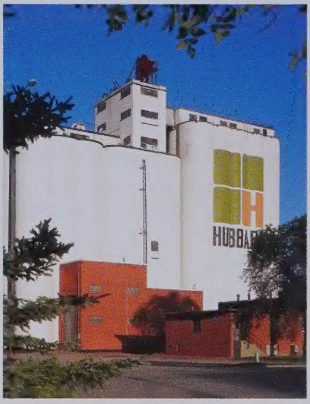
The strength of our feed businesses and the steps taken to reduce our exposure to the risks inherent in the hog market, give us confidence in the ability of Ridley to grow and prosper. Since entering the North American animal nutrition market in June 1994, Ridley has been an aggressive participant in the consolidation of the industry, growing the business from revenues of less than $100 million in fiscal 1995 to the $700 million level today. There are still significant opportunities for further expansion, by internal growth and by acquisitions of other firms within the animal nutrition and food processing supply chain.

Over the years Ridley has announced numerous acquisitions, and after the Wayne Feeds acquisition our bank debt had climbed to $180 million. It was an aggressive step but that decision has been proven correct, as we have derived all of the synergies expected from the acquisition. Most importantly, over the past two years we have demonstrated the ability of Ridley's animal nutrition businesses to operate profitably and to generate significant cash flow. Ridley's bank debt at June 2002, only 27 months after acquiring Wayne, stands at $98 million and our balance sheet is much stronger.

While we are pleased with our performance, we are also focused on the future and what is needed and to accelerate Ridley's growth and success. Our overriding goal is to position Ridley as a long-term competitor, able to meet the challenges of a consolidating industry and ready to take advantage of new opportunities.

Ridley continued to invest in its core animal nutrition businesses in 2002. Feed-Rite's Arborg feed mill was upgraded to increase capacity and improve product quality.

Hubbard Feeds had a strong year in 2002, having completed the integration of Wayne Feeds into its operations, generating good sales volumes and improved profitability.



The Ridley management team undertook a new long-term strategic planning process in 2002, and each of the operating divisions identified a number of strategic initiatives specific to their division, which are described in their individual reports. In addition, several issues were found to be common to all of the divisions. The initiatives to address those issues will be undertaken on a corporate basis, with all divisions contributing.

The first of the corporate initiatives is to make strategic investments that will lead to continued growth and profitability. The other three corporate initiatives are related to the rapid growth Ridley has achieved in a short span of time, and the need to ensure that the infrastructure is in place to support further growth. They will provide an enhanced support structure, permitting Ridley to undertake its growth initiatives, such as acquisitions, and successfully integrate the new businesses. Our corporate initiatives are:

Strategic Investments

Achieve earnings growth and satisfactory returns on invested capital through capital investments in new plant and equipment and acquisitions of successful, strategically-positioned firms in animal nutrition.

Management Information Systems

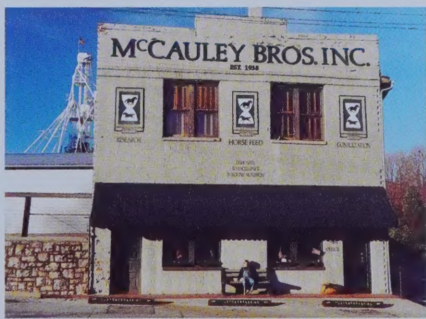
Undertake the necessary improvements to ensure that critical operating functions, such as product pricing, product formulation, inventory control and performance measurement, are properly supported.

Staff Development

Develop a strategy for increasing the depth of the management team, improving the recruiting process, and ensuring the development of skills through organized training programs.

Rationalized Organization Structure

Continue to rationalize the administrative, marketing, product development, accounting and technical services functions throughout the organization.



Ridley acquired a majority interest in McCauley Bros., Inc. in April. McCauley Bros. is engaged exclusively in the manufacture of premium quality equine feeds and nutritional supplements.

Ridley Block Operations is the market leader in low-moisture blocks, with leading-edge research, new product development and the most advanced production facilities in the industry.

The Cotswold business in North America was renamed Cotswold Swine Genetics in 2002, and its science and genetics program is now focused solely on the needs of North American producers.

Ridley has begun implementing its strategic plan with two recent acquisitions. In April, we acquired a majority interest in McCauley Bros., Inc. You can read more about McCauley Bros., Inc. on page 26. In August 2002, the Canadian Feed Operations acquired Shamrock Feeds Ltd. of Saskatoon, and will integrate it with our existing Saskatoon facility.

We are optimistic about fiscal 2003. While the economic and regulatory environment will remain challenging, we believe the steps your management has taken to improve production efficiencies, expand our product offerings, streamline the organization and reduce our exposure to pork production economics will be reflected in stronger operating results.

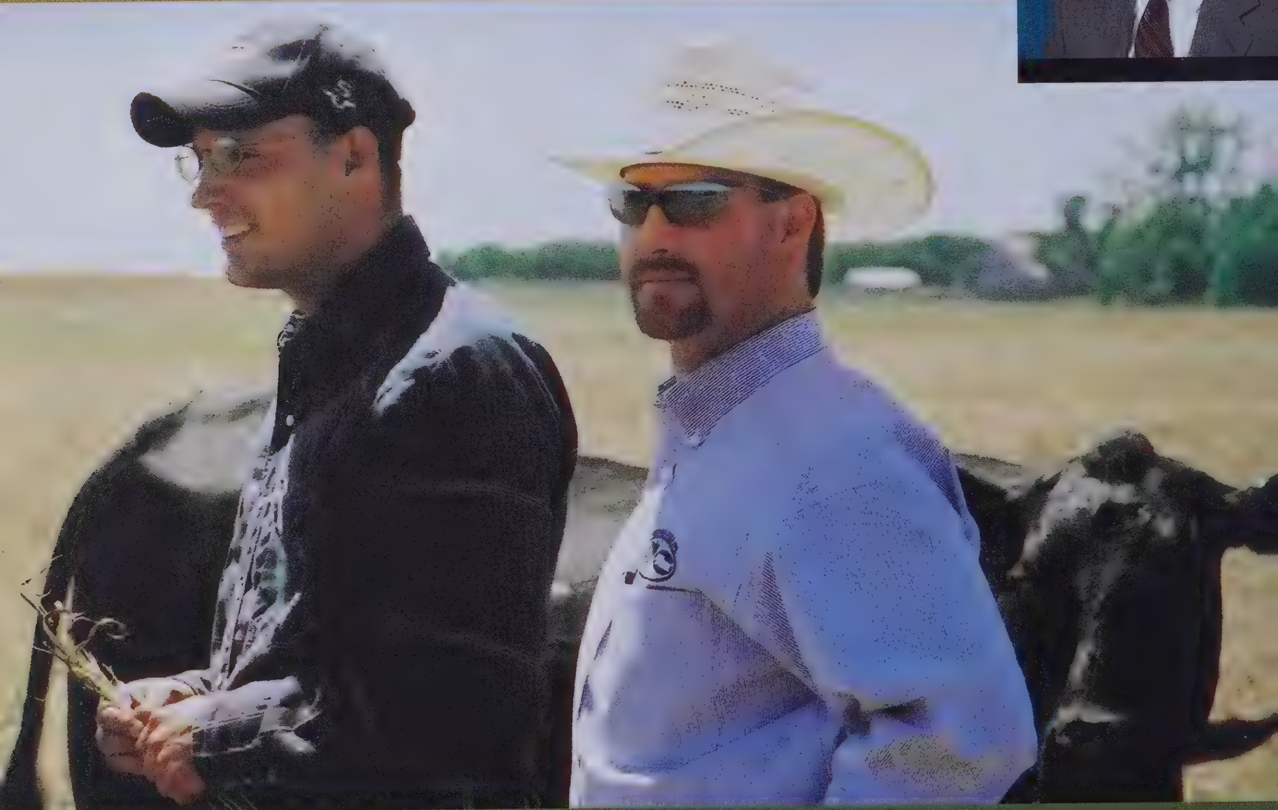
Although we are pleased with the Company's performance in fiscal 2002, we have only begun to capitalize on the abundant opportunities in our industry, and we look forward to the future with anticipation and enthusiasm.

Robert B. Gallaway
President & Chief Executive Officer

1 Rocky Mountain House, Alberta
2 Rimbey, Alberta
3 Lacombe, Alberta
4 Linden, Alberta
5 Fort Macleod, Alberta
6 Lethbridge, Alberta
7 St. Paul, Alberta
8 Lloydminster, Alberta
9 Swift Current, Saskatchewan
10 Saskatoon, Saskatchewan
11 Prince Albert, Saskatchewan
12 Humboldt, Saskatchewan
13 Reston, Manitoba
14 Brandon, Manitoba
15 Austin, Manitoba
16 Killarney, Manitoba
17 Manitou, Manitoba
18 Arborg, Manitoba
19 Malonton, Manitoba
20 Winnipeg, Manitoba
21 Grunthal, Manitoba
22 Mitchell, Ontario
23 Grandin, North Dakota
24 Lusk, Wyoming
25 Bismarck, South Dakota
26 Rapid City, South Dakota
27 Huron, South Dakota
28 Watertown, South Dakota
29 Columbus, Nebraska
30 Beloit, Kansas
31 Alexandria, Minnesota
32 Worthington, Minnesota
33 Mankato, Minnesota
34 Sioux City, Iowa
35 Storm Lake, Iowa
36 Atlantic, Iowa
37 Iowa City, Iowa
38 Appleton, Wisconsin
39 Bushnell, Illinois
40 Castleton, Indiana
41 Shipshewana, Indiana
42 Hopkinsville, Kentucky
43 Botkins, Ohio
44 Chambersburg, Pennsylvania
45 Lancaster, Pennsylvania
46 Selma, North Carolina
47 Mendota, Illinois
48 Versailles, Kentucky
49 Stockton, California
50 Whitewood, South Dakota
51 Worthington, Minnesota
52 Buffalo, Texas


Ridley Inc. Operations
Key to types of facilities
Primary Feed Plants
Macro Premix Plants
Retail Store Only
Ridley Block Operations
Ridley Feed Ingredients
Cotswold Swine Genetics
Micro Premix, Macro Premix, Primary Feed Plant, Retail Store
McCauley Bros., Inc.

S.J.VanRoekel
Vice President, General Manager
U.S. Feed Operations



Lance Pankratz of Roth Angus Ranch and Dr. Allen Stateler of Hubbard Feeds appraise grazing conditions and discuss nutritional needs of the cattle.

U.S. Feed Operations

Fiscal 2002 Results

Fiscal 2002 was a very successful year for Hubbard Feeds, Ridley's U.S. animal nutrition business headquartered in Mankato, Minnesota, as the company focused on the fundamentals of its business and delivered strong earnings results. EBIT (earnings before interest and taxes) increased by 8.5% over fiscal 2001 and considerable progress was achieved in several other key operating areas.

Much of the focus in fiscal 2001 surrounded the acquisition and integration of Wayne Feeds. With that process complete, the focus in fiscal 2002 shifted to an emphasis on the fundamentals of generating new sales and improving operating efficiencies.

The broad focus on sales growth resulted in volume improvements in virtually all species and product segments and through nearly all distribution channels. Earnings exceeded last year in five out of six geographic business units.

The positive sales results came in spite of weather conditions that negatively influenced results throughout much of the year. Summer heat reduced feed intake for all species and resulted in reduced sales volumes early in the year. A mild, open winter with a lack of snow allowed cattle to graze longer, also reducing demand for feed in the winter.

Although total sales volumes in tons declined slightly, volumes of higher-margin, value added products were well ahead of last year and as a result, net margins per ton and total net margins improved significantly over fiscal 2001.

Aggressive operating and overhead expense control and risk management – in key areas of risk such as safety, product liability, credit and property loss – also played a key role in fiscal 2002's excellent results.

Among the other accomplishments in fiscal 2002 were the following:

- **Hubbard's fiscal 2001 initiative to become the first and only major U.S. feed manufacturer to gain ISO 9001 registration paid dividends in fiscal 2002, with improved product quality and reductions in product and service complaints.**
- **The expansion of the Appleton, Wisconsin plant was completed, and major projects to upgrade and further automate the Iowa City, Iowa and Mendota, Illinois (Ridley Feed Ingredients) plants were initiated.**
- **A two to three year project to significantly upgrade the Hubbard truck fleet, begun in fiscal 2001, continued in fiscal 2002.**
- **The consolidation of the Hubbard Feeds and Wayne Feeds product lines in early fiscal 2002 completed the process of integrating the two organizations following the acquisition of Wayne Feeds in late fiscal 2000.**

Economic Environment for Livestock Production

Production economics in the meat, milk and egg sectors were strong in the first half of fiscal 2002. Livestock producers enjoyed average to above-average prices and inexpensive feed costs.

Favorable prices early in the year led to an increase in production and higher meat inventories in mid-fiscal 2002. At the same time, the already weakened U.S. economy stalled, largely as a result of the events of September 11, and resulted in reduced consumer demand for all protein products.

Entering the second half of fiscal 2002, meat supplies hit record levels and prices went into one of the steepest and earliest declines in recent years. Economic conditions were poor for all sectors of livestock production at the close of fiscal 2002, and are expected to remain under pressure at least until the beginning of calendar year 2003.

Looking forward, this point in the price cycle has historically led to contraction in livestock production, which would result in reduced overall feed demands.

Despite these challenging conditions, Hubbard's focus on efficient, high-end producers who employ sophisticated risk management programs, its geographic and specie diversity, and its rigorous risk management and credit policies allowed it to deal successfully with the challenges and produce a positive result.

Feed Industry Economic Environment

For more than two decades, consolidation has been taking place in the U.S. feed industry, largely driven by consolidation and changing needs among meat, milk and egg producers. It appears that feed industry consolidation may be slowing as the number of attractive acquisition opportunities declines.

Consolidation however, has left the remaining players in the U.S. feed industry much stronger. The remaining companies have been able to remove excess manufacturing capacity, rationalize overhead expenses, generate operating synergies, and invest heavily in research and technology to meet the needs of the larger producer. Hubbard has been an aggressive participant in that consolidation and realized the benefits again in fiscal 2002.

The regulatory environment for the industry is becoming increasingly complex and demanding as well. The BSE scare, the fear of bio-terrorism, animal disease issues and greater consumer and regulatory pressure on food safety issues such as antibiotic resistance, all posed much greater challenges in fiscal 2002. More stringent regulatory requirements and the costs associated with dealing with these issues will likely result in fewer and fewer small regional players in the U.S. feed industry. Hubbard is focusing on these issues as opportunities and is working to establish an industry-leading position.

Ridley Feed Ingredients manufactures micro-premixes for Hubbard Feeds, commercial livestock producers and other feed companies, and provides custom manufacturing services for animal health companies. Its focus shifted in 2002 to outside sales opportunities.

Strategy for Fiscal 2003 & Beyond

Hubbard Feeds developed a long-term plan during fiscal 2001. That plan, which focuses on the fundamentals necessary for success in a mature U.S. feed and nutrition industry, remains largely unchanged for fiscal 2003:

- **Invest to achieve aggressive growth among the leading customers in seven growth customer segments: 1) swine, 2) dairy, 3) beef and low-moisture block, 4) companion animal, 5) dealer, 6) egg, 7) feed ingredients & animal health.**
- **Allocate resources appropriately to maintain volume and returns among traditional market segments.**
- **Continue to shift asset structures to adapt to the changing marketplace and customer base.**
- **Seek acquisitions that provide the opportunity to rationalize capacity and operating expense, and/or expand in growth markets and segments.**
- **Improve capacity utilization, and reduce production, overhead, and other operating expenses.**
- **Create sustainability by adding value through maintaining low costs, developing proprietary technology, and maintaining close customer relationships.**

Ridley Inc. undertook a new strategic planning process in fiscal 2002. That process yielded four strategic initiatives common among all Ridley Inc. operating divisions. In addition to those four initiatives, the Hubbard management team identified several short-term initiatives for fiscal 2003:

- **Intensify a goal to establish Hubbard as the clear industry leader in food safety and bio-security. Central to that goal is an initiative to see Hubbard become the first major U.S. nutrition company to be HACCP certified by early fiscal 2004.**
- **Implement a plan to aggressively expand Hubbard's market share in the companion animal and equine markets. That goal will serve to further diversify Hubbard's exposure to the dynamics of the market segments it serves.**
- **During fiscal 2002 Hubbard repositioned its Mendota, Illinois-based feed ingredients operation as Ridley Feed Ingredients, and successfully shifted its focus to outside sales. That process will continue in fiscal 2003 with the implementation of several new initiatives.**
- **Continue to build on the improvements brought about by ISO 9001 to upgrade the customer service function, by providing employees with new training programs and tools, and developing new customer feedback systems.**

The economic and regulatory environment for the feed industry and its customers was challenging in fiscal 2002 and promises to be even more challenging in fiscal 2003. Hubbard Feeds met these challenges head-on in fiscal 2002 by maintaining a tight focus on the strategic plan and by focusing on the fundamentals of the business.

With a continued focus on that plan and those fundamentals, Hubbard is well positioned to produce excellent results again in fiscal 2003.

Dr. Paul Windschitl of Hubbard Dairy Services consults with Kurt Wierda, owner of Sibley Dairy, on current techniques to maximize milk production from Kurt's dairy herd.

Hubbard Feeds was ISO 9001 registered in fiscal 2001, and is working on HACCP certification by early fiscal 2004, as part of its goal to be the industry leader in food safety and bio-security.

The companion animal and equine markets are two customer segments where Hubbard plans to increase market share in order to further diversify its product range.

C.E. Martin
Vice President, General Manager
Canadian Feed Operations

The Arborg feed mill was expanded to meet growing demand in the Interlake region of Manitoba.

Canadian Feed Operations

Fiscal 2002 Results

Ridley's Canadian Feed Operations manufactures and markets feed primarily under the Feed-Rite brand, but also as Farmix in Ontario, and Daco Western Canada in Alberta and Manitoba. Ridley's Canadian Operations also include the operating results of the Quality Swine Systems (QSS) commercial swine production unit.

The feed business – Feed-Rite – continued to perform strongly in fiscal 2002, taking advantage of its competitive strengths to record higher revenues and increased earnings before interest and taxes.

Overall feed sales volumes declined in fiscal 2002 due to two main factors – the loss of internal feed tonnes supplied to QSS and the decision made by two large swine producers to construct their own feed mills. This changed Feed-Rite's product mix, reducing the volume of complete feed sales, but the margins were replaced by increased sales of low inclusion products, such as premixes and supplements.

During fiscal 2002, the wind down of QSS, and costs incurred to do so, resulted in QSS reporting sharply lower revenues and a small loss. Although QSS was a significant purchaser of swine feed, Ridley decided in fiscal 2001 that the risks inherent with the swings in supply and pricing in the swine industry created unacceptable volatility in financial performance. The liquidation continued throughout the year, and was completed by June 2002.

The reduction in feed volumes in 2002 was concentrated in the swine feed sector, for the above-noted reasons, with virtually all other sectors showing increases. In particular, Feed-Rite recorded strong growth in beef cattle, horse and poultry feed sales volumes.

A 14% increase in beef feed volumes was partially due to weather conditions. Drought last autumn in Alberta and Saskatchewan reduced the amount and quality of grazing pasture, and a late and cool spring meant pastures were slow to produce grass. Feed-Rite also introduced a comprehensive new company-wide beef feed program, using the most recent research on cattle nutrition and feed management. The new program was focused on larger accounts and several niche markets and has proven to be very successful.

Economic and Market Environment

At the beginning of fiscal 2002, the economics for livestock production were relatively favorable. Conditions weakened as the year progressed, however, with the beef cattle and swine sectors being particularly hard-hit. Drought in parts of western Canada resulted in poor crops and increased the prices for feed grains and hence for animal feeds. Meanwhile, market prices for hogs and beef cattle declined dramatically as the fiscal year progressed.

The decline in market prices was a function of a growing imbalance between supply and demand. The strong prices producers enjoyed during fiscal 2001 and the early months of fiscal 2002 resulted in incremental increases in production and ultimately a surplus of meat supplies. At the same time, a weakening world economy, reflecting the events of September 11, reduced meat demand just as supplies were hitting record levels.

As fiscal 2002 closed, livestock production economics remained poor, with beef cattle and hog prices near recent historic lows and these industry sectors operating below break-even. The outlook for the coming year offers little immediate relief for livestock producers. The drought conditions persist, particularly in Alberta and parts of Saskatchewan, and grain prices should be strong, putting increased pressure on producers. Livestock prices are expected to be low until well into the first half of fiscal 2003.

The consolidation trend of the past few years continued, as the livestock industry – and especially the hog industry – continued to evolve. Feed-Rite is well positioned to respond to this change by providing cost-effective science-based nutrition programs, including the micro-nutrient premixes or supplements required in a sophisticated nutrition program, and an extensive menu of services that producers are increasingly demanding from feed suppliers. Thus, complete feed sales volumes can be replaced by revenues from a broader package of value-added products and services.

Significant Achievements

In April, Feed-Rite completed an initiative to have all of its facilities HACCP certified, becoming the first feed manufacturer in North America to have all of its mills registered to both the ISO 9001 and Hazard Analysis and Critical Control Points (HACCP) quality control and food safety programs. As the first company in the industry to develop a joint ISO/HACCP registration model, Feed-Rite has extended its lead in quality and food safety in the Canadian feed industry.

The new feed mill in Grunthal, Manitoba, which was built as a replacement facility in fiscal 2001, completed its first full year of production. The facility had a solid initial year, with a significant increase in volume of product manufactured and a similar increase in profitability.

Feed-Rite focused on its core competencies in 2002. Emphasis was placed on improving efficiencies, strengthening cost controls, streamlining operations and enhancing logistics. These efforts were rewarded as Feed-Rite was able to meet its financial goals for the year.

Feed-Rite completed a major expansion of its Arborg, Manitoba, feed mill. This market area has seen continuing increases in livestock production, particularly beef cattle and hog operations, and the Arborg mill had been operating at close to capacity. In addition to significantly increasing capacity, the installation of a new dairy and beef feed blending system will further improve product quality, giving Arborg enhanced ability to meet the growing demand.

Feed-Rite provides ongoing staff training in all areas of the organization, including sales, customer service, livestock and poultry management, and feed manufacturing practices. In fiscal 2002, Feed-Rite also introduced a new performance appraisal system and a new salary administration program, to ensure that staff will be appropriately rewarded for their contributions.

Craig Eros of Windsor Turkey Farm and Don McDonald of Feed-Rite discuss feed conversion statistics for individual turkey flocks.

Dale Fedorchuk, a Feed-Rite owner/operator, and Don McDonald, Feed-Rite's Arborg Manager, review their record of recent feed deliveries to Excel Genetics, a customer of the Arborg plant.

Outlook for 2003

Livestock producers were under tremendous pressure in fiscal 2002, with high inventories of meat products and falling market prices for livestock. This environment can be expected to continue through much of fiscal 2003.

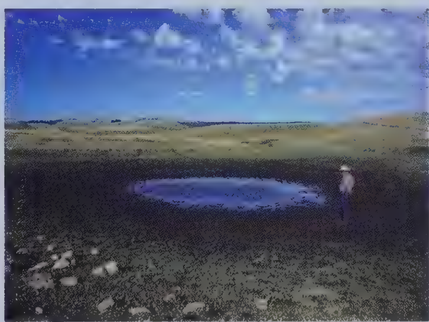
There is heightened awareness in the industry of a variety of operational risks, ranging from credit management to food safety issues, bio-terrorism and animal health issues. Feed-Rite and the other Ridley business units spent considerable time and effort on developing strategies to manage these challenges. A rigorous approach is being taken to address risks from all sources.

Going into fiscal 2003, Feed-Rite has identified a number of key areas on which to focus:

- **Continuing to improve the existing business, increasing capacity utilization, and maintaining a program of rigorous cost controls.**
- **Pursuing acquisitions of regional feed companies that provide the opportunity to rationalize capacity and operating expense, and/or expand into new markets and growth segments.**
- **Increasing emphasis on a coordinated company-wide marketing program and building close customer relationships, with emphasis on customers with strong growth potential. Feed-Rite plans to form alliances with large commercial swine producers who are continuing to expand, and enhance the company's market share with Hutterite Colonies, who have a steadily increasing presence in western Canadian agriculture.**
- **Improving and leveraging the linkages with Ridley's other business units. There are synergies still untapped between the animal nutrition businesses, and more opportunities for coordination between nutrition and Cotswold Swine Genetics.**

In August 2002 Feed-Rite took a significant step towards accomplishing one of its 2003 goals, with the acquisition of Shamrock Feeds Ltd. in Saskatoon, Saskatchewan. Shamrock Feeds manufactures a complete range of feeds, and Feed-Rite will integrate its current Saskatoon facility into the Shamrock location. The acquisition is consistent with Ridley's strategic plan as the two businesses are a good fit, and numerous synergies will be realized.

Feed-Rite has put in place the key elements that will drive its future growth. Fiscal 2003 will be a challenging year, but with the energy, creativity and commitment of all employees, it should be another year of solid performance.



Drought conditions have persisted in parts of western Canada, resulting in poor crops and reducing the amount and quality of grazing pasture available to livestock producers.

Peter Vitti is a member of Feed-Rite's team of highly qualified technical staff responsible for designing scientific nutrition programs that promote the health of livestock and maximize productivity of herds and flocks.

Sarah Mueller of Feed-Rite's marketing department is involved in developing company-wide marketing initiatives, such as the new beef feed program that was so successful in fiscal 2002.

R.E. Frost
Vice President, General Manager
Ridley Block Operations

Ridley Block Operations is committed to having the safest ingredient profile in the industry.

Ridley Block Operations

Fiscal 2002 Results

The highly successful introduction of four new products helped Ridley Block Operations (RBO) achieve another record year in fiscal 2002, with volume outpacing last year by 3%. This is the fifth consecutive year of record sales volume.

RBO continues to lead the low-moisture block market, exceeding last year's tonnage record in spite of less-than-ideal weather conditions for feed supplementation in much of its market area. For most of the year, unseasonably mild weather conditions in much of North America led to good grazing conditions and slowed the movement of low-moisture block products, but a cooler spring and the early summer dry weather resulted in a strong finish for low-moisture block sales.

Although sales volume increased to record levels, operating income remained essentially flat compared with last year. Supplies of molasses, the major component in low-moisture blocks, were very tight early in the year, and transportation distances were greater, resulting in higher production costs.

Ridley Block Operations reformulated the entire product line last year, creating new interest in its low-moisture blocks and spurring a new marketing program to advertise the improved products. Research into novel products is leading to exploration of several new market niches, and continuing research efforts in the area of range management are resulting in innovative breakthroughs in grazing management of both public and private range areas.

Major advances have also been made in demonstrating the superiority of using low-moisture blocks to supplement mineral needs of cattle versus traditional dry, loose mineral they have normally been fed in the past. RBO is very encouraged by the continued growth of its existing product applications, as well as by increased business opportunities opening up in the marketplace for new products being developed.

A Year of Accomplishments

In a year highlighted by challenges – from ingredient shortages to weather conditions to heightened awareness of disease and regulatory issues – Ridley Block Operations continued its commitment to being the industry leader:

- **In February, four new products were launched that provide "around-the-clock" fly control and supplementation: ROLYX™ PRO and ROLYX™ MAX are CRYSTALYX® Brand Supplements, and FLYPatROL 19™ and FLYPatROL 4™ are designed for private label and controlled label customers. The success of the new product launch was due to 1) having an effective product, 2) a proven brand name, and 3) properly timing their release into the market. Also important to the successful launch were a targeted direct mail campaign, extensive press release and website coverage, and effective dealer support materials. A great deal of credit goes to the research and development team – the products' creators – and to the production plants for meeting the strong initial demand from distributors and dealers.**

- **The very successful introduction of two of the new CRYSTALYX® Brand Supplements products – ROLYX™ PRO and ROLYX™ MAX – as summer-time feed supplements increased awareness for the entire product line and helped extend the use of low-moisture blocks throughout the entire year. Encouraging the use of low-moisture blocks as a year-round feed supplement is a business strategy that RBO is vigorously pursuing with other products, such as Hi Mag Fescue-lyx®, Crystal-Phos® and other spring and summer-time products. Year-round use helps livestock producers be more profitable, and decreases the seasonal nature of low-moisture block sales.**

- **The goal of reformulating the entire RBO product line at all plant locations was met in July 2001 by changing from choice white grease to hydrolyzed vegetable oil and making other select nutrient and ingredient adjustments. Ridley Block Operations is committed to having the safest ingredient profile in the industry and does not use restricted ingredients in any of its manufacturing locations. Futhermore, none of Ridley Block Operations' products contain restricted ingredients.**

- **The newly formulated product line required new marketing support materials to reflect the ingredient changes. A new CRYSTALYX® FactBook and Dealer Reference Manual were produced and the website was redesigned to promote the advantages of the reformulated products. The marketing efforts were recognized with several awards from the industry, including two first-place awards for a series of advertisements with a theme of "It's The Best Thing You Can Do."**

- **All four production facilities have earned certification for compliance with FDA's mammalian protein regulation. FCI-certified facilities do not use restricted protein products in their ruminant feed manufacturing facilities.**

- **The Ridley Block Operations production facilities are all ISO 9001 and FCI certified. Both certifications speak volumes to distributors, dealers and producers about the commitment Ridley Block Operations has to product quality and safety. Capital expenditures this year resulted in significant facility improvements and added to the overall production capabilities and quality control aspects of all RBO plants.**

In Pursuit of Excellence

Ridley Block Operations is the market leader in low-moisture blocks primarily because of its determination to provide products that are of the highest quality and that meet the requirements of livestock producers in all situations. To reach that objective, RBO leads the industry in the amount of time and resources expended on researching new applications and developing new products.

Global Positioning Satellite (GPS) technology played an important role in low-moisture block research again this year. This is the fourth year in which GPS technology has been used to study cattle grazing patterns and improve range management. The research is leading to new insights in analyzing animal behavior and is uncovering new ways to influence the grazing patterns of cattle. Ridley's low-moisture blocks have been shown to be one of the most effective tools for ensuring uniform and efficient use of pasture and grazing land, as well as protecting the health and diversity of riparian areas critical for wildlife habitat.

Research work in Montana that focused on grazing management produced some breakthrough results. The latest two-year study by the Northern Agricultural Research Center at Montana State University compared mineral supplementation via low-moisture blocks with dry, loose mineral supplementation. The conclusions provided even more support for Ridley's products, with convincing research results demonstrating that "providing supplemental minerals to cattle via CRYSTALYX® is an extremely cost effective program." Ridley is also involved in a new four-year, U.S.$1 million study on range management being conducted by the U.S. Department of Agriculture.

In January 2002 Ridley Block Operations acquired the patent rights and manufacturing equipment for "Pound-A-Day," a solid nutritional feed in bar form, primarily aimed at the equine market. The bars can be formulated to meet specific nutritional needs, and are scored into bite-sized pieces for easy consumption, thus delivering the exact quantity of nutritional supplement required. The manufacturing equipment was moved to the Worthington, Minnesota block plant and the goal is to have a new equine product ready for the market by the end of the current calendar year.

Sales of Crystalyx® Brand Supplements continue to grow, aided by Ridley's award-winning support materials, including a new FactBook and Dealer Reference Manual, that answer the questions of dealers, distributors and producers.

Ridley Block Operations achieved record production tonnage and sales volume in 2002, for the fifth consecutive year.

Outlook for 2003

The past year presented Ridley Block Operations with a number of challenges, including ingredient shortages, weather that was not conducive for sales, increased concerns about risk management and regulatory issues. The dedicated staff at RBO met each challenge with the enthusiasm and commitment it takes to be the industry leader. Their success in pursuit of the goal of being the best has led to great things: continued growth and increased demand, successful new products that meet the needs of the market and extend the busy season, research results that validate the superiority of RBO's products, and overall improvements in manufacturing and marketing.

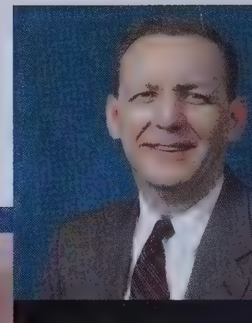
Ridley Block Operations has developed a forward-looking and goal-oriented culture. It is a culture that will help maintain Ridley's market leadership in fiscal 2003 and produce another year of excellent results.

All of Ridley's efficient, state-of-the-art block production facilities are ISO 9001 registered, producing consistent, safe, high-quality low-moisture blocks.

Dr. Dan Dhuyvetter is one member of a dedicated team of individuals providing strong product support, and is also involved in new product development research focused on low-moisture blocks.

Ridley's low-moisture blocks are an excellent way of meeting nutrient needs of cattle, influencing their grazing distribution, and thus helping producers maximize forage utilization.

S.J.VanRoekel
Vice President
Cotswold Operations



Cotswold Operations

Fiscal 2002
Results Disappointing

Ridley's swine genetics and pork production businesses posted significant losses again in fiscal 2002. These losses were driven largely by the lingering effects of Foot and Mouth Disease in the European operations early in the year, and the loss on disposal of the European business late in fiscal 2002. Sharply lower hog market prices late in the year exacerbated the overall losses.

During fiscal 2002, Ridley also undertook a further, more significant consolidation and restructuring of its remaining Cotswold Swine Genetics operation in North America and completed the liquidation of Quality Swine Systems (QSS), its 12,000-sow commercial pork production system.

Direct Swine Exposure Reduced Dramatically

Ridley took significant steps to reduce its direct exposure to pork production economics, and to reduce the size of its pork production businesses during fiscal 2002:

- **The European swine breeding and genetics business, Cotswold Pig Development Company, was sold to JSR Newsham Limited during the fourth quarter of fiscal 2002. All costs associated with the sale are recorded in fiscal 2002's results.**

- **The liquidation of QSS, begun in late fiscal 2001, was fully complete by the close of fiscal 2002. QSS's financial results are reflected in the Canadian Feed Operations earnings.**

- **The consolidation, restructuring, and downsizing of the North American Cotswold operation, renamed Cotswold Swine Genetics – which eliminated more than $1 million in annual operating costs and positioned Cotswold to operate independently of Europe – was also fully completed during fiscal 2002.**

The net effect of these steps – the completed liquidation of QSS and the divestment of Cotswold's European operations – is that Ridley has reduced its direct ownership, and therefore its direct exposure to pork production economics, by more than two-thirds.

Cotswold North American Business Restructured

Ridley continues to own and operate Cotswold Swine Genetics, the North American-based swine genetics business, and during fiscal 2002 took a number of significant steps to reduce costs, streamline operations, and position it to operate as a stand-alone swine genetics business. Those steps included:

- **The consolidation of the Canadian and U.S. operating units and management teams into one North American enterprise.**

- **The installation of a new senior management team, including the general manager, production manager, health services manager, controller, and manager of science and genetics.**

- **The closing of the Urbandale, Iowa and Shipshewana, Indiana offices; downsizing of the Winnipeg, Manitoba office; and relocation of headquarters to Mankato, Minnesota.**

- **The establishment of a North American science and genetics program focused on the requirements of the North American market.**

- **The out-sourcing of routine veterinary services, production record keeping, live animal trucking, and pharmaceutical sales to qualified, independent firms.**

- **The relocation of all customer service, credit, accounting, health services, MIS, human resources, and other overhead functions to the Mankato office, utilizing Ridley Inc. personnel where possible.**

- **The reformation of many accounting, human resources, credit, production, and other policies and procedures.**

These initiatives dramatically reduced the potential for losses in North America, reduced operating costs significantly, brought a new management team with sorely-needed pork production and genetics expertise, improved communications, and resulted in a genetics program focused on the needs of the North American producer.

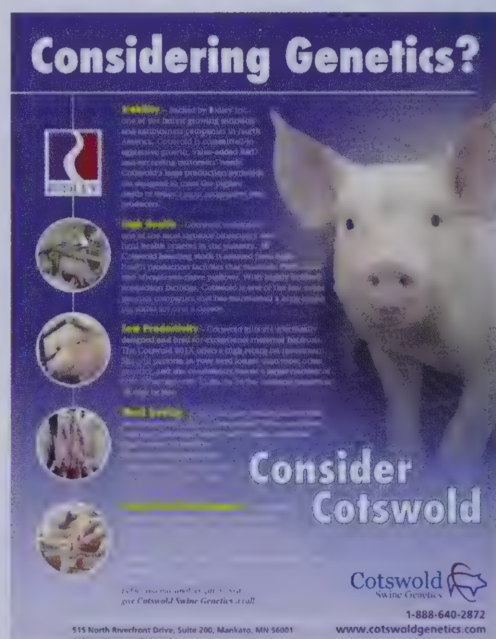
Swine Industry Market Environment

Although many factors, including primarily the disease outbreaks in Europe, led to Cotswold's losses in recent years, feed costs and the volatility of hog market prices also played a key role in results.

Rising feed costs increase the cost of producing animals. Weak hog market prices influence the rate at which pork producers purchase replacement breeding stock, and the price paid for breeding stock, as well as reducing revenue from by-product sales.

Pork production economics in the North American swine industry were strong in the first half of fiscal 2002, with producers enjoying average to above-average prices for their market hogs and inexpensive feed prices. Good overall meat demand and low feed prices through the last two years led to slow but steady expansion in nearly all red meat and poultry sectors.

By late fiscal 2002 however, red meat and poultry supplies hit record levels. Demand slowed as a result of the weakened U.S. economy and consequently, prices in nearly all meat sectors declined sharply in the second half of fiscal 2002. Weak market prices are expected to last well into fiscal 2003.



Large pork producers in North America are noticing the recognized advantages of Cotswold genetics, and a new advertising campaign has been initiated to capitalize on Cotswold's higher profile.

Fiscal 2003 Plans

Ridley Inc.'s only remaining exposure to the economics of pork production going into fiscal 2003 are the North American operations of Cotswold Swine Genetics. The new Cotswold senior management team has a four-part action plan as their primary focus for fiscal 2003:

- **Upgrade the sales staff, and launch a marketing and advertising campaign to improve the image and awareness of the superior benefits of the Cotswold product.**

- **Design and implement a professional risk management program that will limit the risk of fluctuating hog and feed prices, provide an increased degree of forward earnings predictability, and improve cash results. As of July, Cotswold has placed options and futures-based hedges on 100% of its hog market and feed cost risk through the fourth quarter of fiscal 2003.**

- **Continue to work towards decreasing direct exposure to hog market price risk by focusing efforts on royalty-generating grandparent animal sales for customers with internal multiplication, while maintaining strong parent animal sales.**

- **Continue to implement new management systems and controls to reduce production costs and more effectively manage risks.**

The Cotswold product has earned a reputation among North American packers and processors for its high lean percentage and yields, and exceptional meat quality characteristics.

The Cotswold Product

Lost in the turmoil of recent years has been the fact that the Cotswold product in North America is well positioned to compete in the huge, integrated, and technologically sophisticated North American swine industry:

- **Cotswold is one of only two companies with PRRS-naïve and Mycoplasma-naïve production systems in North America of sufficient size to meet the stocking needs of large, integrated producers. Health status has become the number one buying criterion among North American pork producers.**
- **The Cotswold breed is known for its exceptional maternal productivity and durability, and recent comparative results show that producers can realize an extra $1 per weaned pig as a result of the lower cull rates of the Cotswold sow.**
- **Cotswold's grower and finisher average daily gains and feed efficiencies meet the highest industry standards as a result of new product development in the boar lines.**
- **Cotswold is quickly gaining a reputation among North American packers and processors for its high lean percentage and yields, and exceptional meat quality characteristics.**

Cotswold animals now populate several of the largest pork producers in the U.S., and Cotswold is beginning to receive consideration any time a large, integrated pork producer considers new genetics.

Significantly Improved Results Expected in 2003

In fiscal 2002, the Ridley organization took aggressive steps to reduce its direct exposure to the disease and price risks associated with the pork production and swine genetics businesses. The exit of QSS and the European Cotswold operations have completely ended ongoing losses in both businesses, and reduced Ridley's direct pork production exposure by more than two-thirds.

Those steps, coupled with the restructuring of Cotswold Swine Genetics in North America, will without question translate to significantly improved results in fiscal 2003.

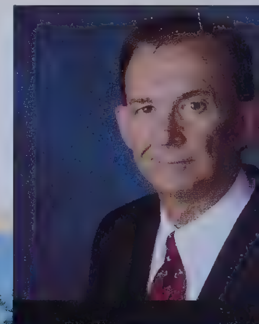
Under normal hog market conditions, the remaining Cotswold Swine Genetics business in North America would be expected to yield a positive EBITA. The hog market outlook for fiscal 2003 however, is not currently favorable, and without significant improvement is likely to result in modest losses in 2003.

Regardless, the new management team's focus on lowering production costs, improving sales and executing an aggressive risk management plan, should further improve results in fiscal 2003.

Steve Stix (General Manager), Brett Bahr (Controller) and Dr. Sheila Keay (Health Services Manager) review production records and discuss new management systems and controls.

Michael Wilson, Cotswold's Production/Operations Manager, is responsible for the production nucleus herds, multiplication units and artificial insemination center.

Dr. D.B. Longmire
Chief Executive Officer
McCauley Bros., Inc.



The central Kentucky area is renowned for the size and influence of its thoroughbred industry, and many of the world's finest horse farms are located nearby.

McCauley Bros., Inc.

In April 2002, Ridley Inc. acquired a majority interest in McCauley Bros., Inc., completing the first step in a strategic plan to create a new business unit focused on nutrition and specialty products targeted exclusively for equine markets in North America.

McCauley Bros., Inc. (McCauley Bros.) is located in Versailles, Kentucky, near Lexington, and is in close proximity to one of the largest concentrations of Thoroughbred and Standardbred horses in America. Established in 1938, McCauley Bros. is engaged exclusively in the manufacture of premium quality equine feeds and nutritional supplements. McCauley Bros. constructed a state-of-the-art feed production facility during 1999 and 2000, designed specifically and solely for the production of horse feed, with but one purpose – to make the "Best Horse Feed in the World."

Excellence in Equine Nutrition

Over the years, McCauley Bros. has developed a very strong reputation in the equine community for quality and service and has become the feed company of choice to many of the world's leading horse farms and stables. McCauley products are shipped directly to customers in company-owned trucks within the trading area surrounding Versailles, and specialty products are sold more extensively through a network of dealers and regional distributors. Their products are also exported to Canada, Mexico, Chile, Puerto Rico, Japan and Ireland.

In addition to McCauley's branded products, customers have access to a wide array of services and support including seminars and personal consultations, graphics software to monitor progress toward goals, custom feed formulations to address special nutritional requirements, and an extensive research library on equine nutrition.

McCauley Bros. recognizes that, in addition to the performance aspect, there is generally a strong emotional bond between the horse owner and a valued equine companion. Horse owners realize that a feed program high in nutritional quality and safety contributes to the healthfulness, appearance and overall contentment of their companion. Accordingly, McCauley Bros. has adopted an uncompromising insistence on using only the very finest ingredients available and applying the most stringent of quality control measures to all aspects of production. Feed formulations are not "least-costed" and are reformulated only to achieve nutritional improvement. To assure the safety of its equine customers, the facility manufactures only horse feed, so there are no potentially harmful additives on site.

McCauley's products appeal to the elite levels of the equine market, including breeding farms, racing stables, English and Western performance stables, upper-end riding stables and pleasure horse owners. The company has a solid track record of innovation, including being one of the first companies to introduce pelleted feeds for horses, having the only patented hoof supplement, and being the exclusive source for unrefined rice bran oil for the equine industry. McCauley's Rice Bran Oil is a feed supplement with numerous advantages over alternative fat products.

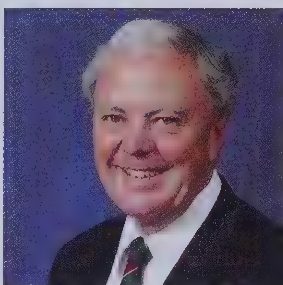
Outlook for 2003

Uncompromising quality and consistency, recognized expertise in equine nutrition, and strong brand recognition have made McCauley Bros. the supplier of choice for many of the world's best horse breeders. McCauley represents an important new niche segment of the feed industry that offers new growth opportunities for Ridley Inc.

In addition to the incremental "bolt-on" advantages of being able to develop a presence in a new market segment, Ridley anticipates that numerous synergies can be developed between the two organizations in the areas of marketing, cost savings and sharing of information. The combined resources and technical expertise of Ridley and McCauley will facilitate wider distribution of McCauley products through new dealership and distribution arrangements, as well as through the existing Ridley distribution system.

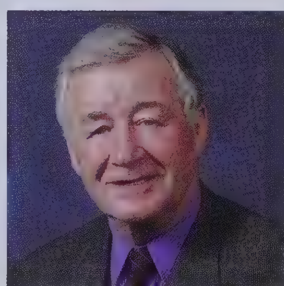
Amy Parker and Mac McCauley admire "Rosie" and "Jesse", the Bernese Mountain dogs whose shiny coats and overall good health serve as walking billboards for the benefits of McCauley's Rice Bran Oil.

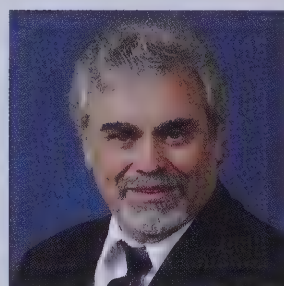
McCauley Bros., Inc. constructed a state-of-the-art horse feed facility with a single purpose, which is clearly stated over their load-out door and on their delivery trucks.


J.S. Keniry


M.P. Bickford Smith


J.C. Brown


R.L.M. Dawson


L.J. Martin

Ridley Inc. Board of Directors

J.S. Keniry, BSc, PhD, FTSE, FRACI, FAICD

Chairman, Age 59

Director and Chairman since 1997. Director of Ridley Corporation Limited, Australia, since 1990 and its Chairman since March 1994. Formerly held executive positions with leading Australian public companies, CSR Limited and Goodman Fielder Limited. Presently Chairman, National Registration Authority for Agricultural and Veterinary Chemicals; Chairman, Sugar Australia Pty Ltd; Immediate Past-President, Australian Chamber of Commerce and Industry; and a Director of a number of other statutory bodies and companies. Fellow of the Royal Australian Chemical Institute, Australian Academy of Technological Sciences and Engineering, and the Australian Institute of Company Directors.

M.P. Bickford-Smith

Non-Executive Director, Age 42

Director since August 2001. CEO and Managing Director of Ridley Corporation Limited since November 2000. He was previously with the Man Group and was Managing Director of Australia where the main focus of the last three years was the negotiation and implementation of a three-way merger within the domestic refined sugar industry. Before moving to Australia he was based in Hong Kong with responsibility for managing risk relating to the Man Group's sugar businesses within the region. He joined the Man Group in 1991 as Manager of business development for the sugar division where he gained experience assessing business opportunities in South East Asia, South America and Eastern Europe. Before moving to the Man Group he spent five years with Phibro, the commodity trading division of Salomon Brothers, where he worked in several soft commodity divisions with the main focus being proprietary trading, structured financing and marketing.

J.C. Brown, BSA, MSc, PAg, FAIC

Non-Executive Director, Age 73

Director since May 1997. Since 1996, Principal, J.C. Brown Consulting Services. Formerly Vice-President, Marketing with Feed-Rite Ltd. and earlier held a senior position with the Canadian Wheat Board. Former National Director of the Agricultural Institute of Canada and Past President of the Manitoba Institute of Agrologists. Now, Executive Director/Registrar, Manitoba Institute of Agrologists. Actively involved in western Canada's agri-business sector for 48 years.

R.L.M. Dawson, MA

Non-Executive Director, Age 67

Director since May 1997. Principal of Fulcrum Associates, a Winnipeg consulting firm specializing in value-added agriculture and sustainable development. Held senior management positions with Cargill in Europe, South America and Canada, including responsibilities for grain marketing, the feed industry, the seed business, and corporate affairs. Chairman of the Winnipeg Commodity Exchange, 1978. Served on Canada's Agricultural Advisory Committee to the "Uruguay" GATT Round and on the Economic Innovation and Technology Council of Manitoba.

L.J. Martin, PhD

Non-Executive Director, Age 57

Director since May 1997. Chief Executive Officer of the George Morris Centre since 1994, formerly Director of Research since its inception in 1990. Previously Professor and Chair, Department of Agricultural Economics and Business, University of Guelph. Served on the Public Advisory Committee on Regulation Review for Agriculture Canada and as Chair, Canadian Agri-Food Competitiveness Council (1991 - 1994). Has extensive experience in competitiveness and trade issues and has facilitated the strategic visioning, planning, and development of strategic alliances for many organizations.

M.S. Mitchell
Chief Financial Officer

Management's Discussion and Analysis

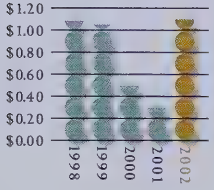
The following discussion and analysis should be read in conjunction with the Company's financial statements that appear on pages 37 to 60 of this report. Unless otherwise indicated, references to years refer to the Company's fiscal years ending June 30.

Results of Operations

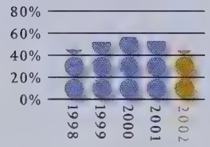
Overview

Fiscal 2002 can be looked at as a year of progress in terms of both financial results and strategic positioning for the future. The Canadian Feed Operations provided stable earnings through a combination of expense control and margin improvement despite volume declining due to the shutdown of QSS. U.S. Feed Operations were focused on the fundamentals of the business after experiencing tremendous growth from the Wayne acquisition in fiscal 2001. Operating expenses were reduced, margins improved, and key risk areas managed effectively. The result was increased operating income. Ridley Block Operations provided stable earnings as well while achieving record tons and introducing new products and research activities that will provide benefits in the future. The acquisition of 51 percent of McCauley Bros., Inc. in the U.S. was another strategic move to get further involved in the equine market. The Cotswold Division again experienced significant losses but some strategic steps were taken, including the sale of the Cotswold European business and restructuring in North America to reduce our risk exposure for the future. The positive financial results achieved overall allowed us to make significant progress toward repaying debt for the second consecutive year.

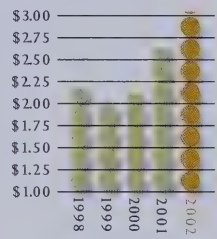
EARNINGS PER DILUTED SHARE



LONG-TERM DEBT TO TOTAL CAPITALIZATION

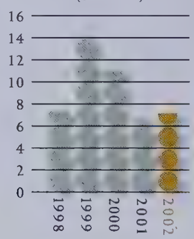


CASH FLOW* PER DILUTED SHARE



* *Cash flow generated from operations before changes in non-cash working capital.*

CAPITAL SPENDING
($ millions)



The following table summarizes the Company's operating results for fiscal 2002 and fiscal 2001.

Division Earnings Recap 2002 with 2001 Comparative (Cdn$000)

	Canadian Division		U.S. Division		Cotswold Division		Unallocated		Total	
	2002 ($000)	2001 ($000)	**2002** ($000)	2001 ($000)	**2002** ($000)	2001 ($000)	**2002** ($000)	2001 ($000)	**2002** ($000)	2001 ($000)
Revenue	189,657	185,283	473,886	487,574	26,249	23,698	–	–	689,792	696,555
Cost of sales	159,311	153,119	374,491	390,965	23,365	20,275	–	–	557,167	564,359
Gross profit	30,346	32,164	99,395	96,609	2,884	3,423	–	–	132,625	132,196
	16.0%	17.4%	21.0%	19.8%	11.0%	14.4%			19.2%	19.0%
Operating expenses										
Selling, G&A	17,620	18,832	49,351	50,580	4,975	3,909	3,548	2,341	75,494	75,662
Depreciation and amortization	1,816	1,882	8,331	8,072	589	371	704	71	11,440	10,396
Research & development	27	74	791	654	551	327	–	12	1,369	1,067
	19,463	20,788	58,473	59,306	6,115	4,607	4,252	2,424	88,303	87,125
Operating income	10,883	11,376	40,922	37,303	(3,231)	(1,184)	(4,252)	(2,424)	44,322	45,071
Interest expense									9,152	12,760
Claims settlement (income)									(3,000)	–
Loss on sale of investment									999	–
Other income, net									(3,826)	(3,604)
Net earnings before the following									40,997	35,915
Provision for income taxes									14,397	12,816
Goodwill amortization									1,280	1,037
Minority interest share of net earnings									68	–
Net income from continuing operations									25,252	22,062
Attributed to discontinued operations									(10,205)	(18,104)
Net earnings for the year									15,047	3,958
Total assets-continuing operations	89,097	91,779	216,648	229,122	17,845	18,179	3,784	–	327,374	339,080
Capital assets and goodwill-continuing operations	46,581	46,489	137,387	142,420	4,262	4,393	–	–	188,230	193,302
Total assets-discontinued operations							2,300	11,654	2,300	11,654

Income From Operations

On a consolidated basis, revenue for 2002 decreased by $6.8 million, or 0.9 percent, to $689.8 million, compared with $696.6 million in 2001.

Cost of sales decreased 1.3 percent or $7.2 million to $557.2 million compared with $564.4 million the previous year. The gross profit for 2002 of $132.6 million was $0.4 million, or 0.3 percent higher than the 2001 total of $132.2 million. As a percentage of revenue, the gross profit increased from 19.0 percent in 2001 to 19.2 percent in 2002.

Total operating expenses, including selling, general and administrative expenses, depreciation, and research and development, were $88.3 million for the year, or $1.2 million higher than the 2001 total of $87.1 million. Ridley's operating income of $44.3 million was $0.8 million lower than the $45.1 million recorded in 2001.

Net earnings were $15.0 million, compared with $4.0 million in 2001. Reported net earnings in 2002 included a $5.9 million loss on the sale of the Cotswold European Operations and a loss of $1.0 million for an impaired research and development investment. These losses were partially offset by a claims settlement received in the amount of $3.0 million. Reported net earnings for 2001 reflected a $10.5 million write-off of goodwill and $1.5 million of restructuring costs for Cotswold.

The following discussion of division results provides a more detailed analysis of these changes.

Canadian Division

Ridley's Canadian Division consists of feed mills operating as Feed-Rite and commercial hog production operations operating under the name Quality Swine Systems (QSS). Sales volumes were down for the year, reflecting the wind down of QSS following the company's decision that opportunities in commercial hog production do not outweigh the risk involved. The exit and final costs associated with QSS are included in the year-end financial statements.

Operating income of the Canadian Division decreased by $0.5 million, or 4.3 percent, to $10.9 million in 2002 from $11.4 million in 2001. The decrease was due to QSS showing a loss of $0.7 million in 2002 against a loss of $0.1 million in 2001. The Canadian feed operations improved operating income by $0.1 million from $11.5 million in 2001 to $11.6 million in 2002. The losses in QSS were the result of lower pig prices and wind down costs. The increase in Canadian feed operations was due to margin improvements and expense reductions.

Canadian Division revenue increased by $4.4 million, or 2.4 percent, from $185.3 million in 2001 to $189.7 million in 2002. This is the result of QSS sales declining by $21.9 million due to winding down the operations. Canadian feed operations revenues increased by $26.3 million resulting in the net revenue increase. The reason for the revenue increase was the rise in commodity prices over the previous year and not the result of overall volume increases. Beef and poultry feed sales volumes did increase for the Canadian feed operations. Cost of sales within the division increased by $6.2 million to $159.3 million compared with $153.1 million in 2001. The revenue increase in the Canadian feed operations drove the increase in cost of sales. Sales on a dollar basis are not an accurate measurement of Ridley feed businesses as they are affected by fluctuating commodity prices.

Gross profit decreased by $1.8 million, or 5.6 percent, to $30.3 million in 2002 from $32.2 million in 2001. As a percentage of revenue, gross profit decreased to 16.0 percent in 2002 from 17.4 percent in 2001. The decline was due to the margin decline in the QSS operation as a result of lower hog prices. Canadian feed operations show a higher net margin per ton of feed sold due to a more profitable product mix with more sales of higher margin, low inclusion products such as premixes and supplements.

Total operating expenses declined by $1.3 million to $19.5 million from $20.8 million in 2001. Selling and G&A expenses declined by $1.2 million from $18.8 million in 2001 to $17.6 million in 2002. This was the result of lower overhead in the QSS operations, in addition to cost reductions within the Canadian feed operations.

U.S. Division

The U.S. Division consists of Hubbard Feeds operations, Ridley Block Operations and McCauley Bros., Inc. The U.S. feed operations focused on the fundamentals of its business throughout fiscal 2002. The result was good sales volume to virtually all specie product lines, increased margins per ton sold, and reduced operating expenses. Ridley Block Operations dominate the low-moisture block market in the U.S. with a more than 50% production share. In fiscal 2002, Ridley Block Operations successfully introduced new products, and recorded record sales volumes. Research in two novel products carried the division into several new market areas and continuing research in range management is leading to innovative breakthroughs.

Operating income of the U.S. Division increased by $3.6 million, or 9.7 percent, to $40.9 million from $37.3 million in 2001. The increase was due primarily to improved results within the U.S. feed operations, despite sales volume being down from the prior year. Margins per ton were improved due to product mix. Cost savings were achieved in a number of areas due to prior reorganization efforts, and costs were managed in key risk areas throughout the organization. Although Ridley Block Operations reported record sales volume, operating income remained essentially flat. Tight molasses supplies increased production costs early in the year. This was offset by strong sales volume in the last half of 2002.

U.S. Division revenue decreased by $13.7 million, or 2.8 percent, to $473.9 million in 2002 from $487.6 million in 2001. Sales tonnage decreased by 3.7 percent. The revenue decrease is accounted for primarily by fewer tons shipped in the U.S. feed operations partially offset by increased volume in the Ridley Block Operations over fiscal 2001. Higher commodity prices over the prior year increased revenue dollars and also offset the impact of the tonnage decline. Sales on a dollar basis are not an accurate measurement of Ridley businesses as they are affected by fluctuating commodity prices.

Gross profits for 2002 increased by $2.8 million, or 2.9 percent, to $99.4 million from $96.6 million in 2001. The gross margin dollar increase is the result of the improved product mix within the U.S. feed operations and the increased block sales. Gross profit as a percentage of sales increased from 19.8 percent in 2001 to 21.0 percent in 2002.

Selling, G&A (S,G&A) costs decreased by $1.2 million, or 2.4 percent, to $49.4 million in 2002 from $50.6 million in 2001. S,G&A costs were lower than last year due to cost reduction efforts within the U.S. feed operations and effective management of key risk areas such as safety, product liability, and bad debt expense. Energy costs were also lower than the prior year for the entire U.S. operations.

Depreciation increased by $0.3 million to $8.3 million compared to $8.1 million in 2001.

Research and development increased by $0.1 million to $0.8 million from $0.7 million in 2001 due to expanded research efforts, mainly in the area of swine research.

Cotswold Division

The Cotswold Division, which at the start of fiscal 2002 consisted of swine genetics production in the U.K., Germany, U.S. and Canada, now consists of our U.S. and Canadian operations – following the sale of Cotswold Europe during the fourth quarter of fiscal 2002. Ridley has now completely exited the swine genetics business in Europe and all estimated associated costs and losses were recorded in fiscal 2002's results. The exit from Europe, along with the exit from QSS, drastically reduced Ridley's market exposure to hog prices.

Ridley's North American-based swine genetics business, renamed Cotswold Swine Genetics, took a number of significant steps in fiscal 2002 to reduce costs, streamline operations, and to enable it to operate independently from Europe. Those steps included the consolidation of the Canadian and U.S. operating units and management teams; the installation of a new senior management team; the closing of the Urbandale, Iowa and Shipshewana, Indiana offices; down-sizing of the Winnipeg, Manitoba office, and relocation of headquarters to Mankato, Minnesota. In addition, we have established an independent, North American science and genetics program, which allows us complete independence from European operations, and a number of initiatives which have dramatically reduced the potential for losses in North America. The resulting company is clearly focusing its genetic program on the needs of the North American producer.

Ridley received total consideration of $2.3 million for the sale of its European business, of which $0.8 million will be from the liquidation of residual assets, $1.0 million of the sale proceeds is a deferred payment due in three years, with the balance on completion. The total loss on divestiture is $5.9 million, including a loss on the book value of the business plus all the associated costs of the divestiture. The financial statements reflect the losses incurred by Cotswold U.K. for both fiscal years as discontinued operations.

Operating income for the Cotswold Division (continuing operations) decreased by $2.0 million, from a loss of $1.2 million in fiscal 2001 to a loss of $3.2 million in fiscal 2002. Continuing operations consist of Cotswold operations in the U.S. and Canada, now known as Cotswold Swine Genetics. The consolidation effort that took place in North America at a cost of $1.1 million was the single largest factor increasing the losses. The effort will drastically reduce operating costs in the future. Reduced sales volume of higher margin genetic animals and depressed hog prices make up the balance of the decline over last year.

Revenues for the Cotswold Division increased by $2.5 million, to $26.2 million from $23.7 million in 2001. Revenue increases were the result of volume increases of by-product sales. Cost of sales increased by $3.1 million, to $23.4 million from $20.3 million in 2001. The increase was the result of the revenue increase of by-product sales.

Gross profit for 2002 decreased by $0.5 million, to $2.9 million from $3.4 million in 2001. Sales declines for genetic animals and the depressed hog markets were the reasons for the declines.

Operating expense increased by $1.5 million, to $6.1 million from $4.6 million in fiscal 2001. Restructuring costs of $1.1 million are included in fiscal 2002 expenses. Other increases are due to wage and benefit costs, barn costs, and professional fees.

Unallocated Costs

Unallocated costs increased by $1.8 million in 2002. The largest item is amortization of the costs associated with the global banking facility. Costs are being amortized over the length of the agreement (4 years). Other increases are due to wage and benefit costs, new positions, legal and professional fees and travel costs.

Other Expense (Income)

Other income is interest received on loans and receivables to third parties and gains on disposal of fixed assets. Other expense (income) was $(3.8) in fiscal 2002 compared with $(3.6) million in 2001.

Claim Settlement

A claim settlement was received from suppliers in Canada, resulting in a gain of $3.0 million in fiscal 2002.

Discontinued Operations

On May 10, 2002, the Company sold its European swine breeding and genetics operations (Cotswold Pig Development Co. Limited). Total consideration of $2.3 million includes cash and a short-term receivable of $0.5 million, residual assets of $0.8 million and a deferred receivable of $1.0 million due in three years from sale date. The transaction resulted in a loss of $5.9 million. The loss on the sale of the business, along with the operating loss of the discontinued operations of $4.3 million, resulted in a total loss on discontinued operations of $10.2 million for fiscal 2002. This compares to a total loss in fiscal 2001 of

$18.1 million. The impact of this discontinued operation is excluded from the operating income and reported separately below net earnings from continuing operations in the Division Earnings Recap.

Loss on Sale of Investment

The Company recorded a loss of $1.0 million for a research and development investment. The project involved research to develop a proprietary commercial technology for the dairy, beef and swine industries. The economic climate made it impossible to raise the required venture capital to enable the project to continue.

Interest

Interest expense decreased by $3.6 million, or 28.3 percent, to $9.2 million from $12.8 million in 2001, primarily as a result of a reduction in debt, combined with lower interest rates. The total debt was reduced from $138 million at the beginning of the fiscal year to $98 million at year-end.

Income Taxes

Income taxes as a percentage of net earnings before income taxes and goodwill amortization decreased from 35.7 percent in 2001 to 35.1 percent in 2002.

Net Earnings for the Year

Net earnings for the year increased by $11.1 million, from $4.0 million in 2001 to $15.0 million in 2002. Basic earnings per share for fiscal 2002 were $1.12, a substantial increase from the $0.30 basic earnings per share in 2001. The number of shares outstanding were 13,409,600, compared with 13,337,500 in fiscal 2001.

Liquidity and Capital Resources

Cash generated from operations, before changes in non-cash working capital balances, was $40.8 million, an increase of $5.2 million from the $35.6 million generated in 2001. Working capital decreased by $13.1 million, to $34.5 million in 2002 from $47.6 million in 2001.

Capital expenditures for fixed assets during the year were $7.3 million compared with $6.7 million in 2001. Cash generated by operations funded capital expenditures.

Risk Management

The Company's businesses are subject to a number of risk factors including commodity prices, hog prices, interest rate and foreign currency volatility, customer credit performance, weather conditions, environmental regulations and the loss of facilities and inventories from fire and other perils. The Company mitigates these risks through a variety of methods. A new risk management position was added during the year to provide more emphasis to this strategically important area for the company.

Commodity Pricing

Grains and Protein Meals

Commodity grains and protein meals constitute a significant component of the Company's complete feed production. Complete feed is sold through either spot orders, or through longer-term, fixed-price sales contracts. In order to meet short-term requirements, the Company maintains inventories of grains and protein meals.

The grains and protein meals market is such that the Company is subject to a risk of movement in price between the time that grains and protein meals are purchased and the time they are sold as part of a feed product or pig. The Company is also subject to a risk of movement in price between the time that the commodities are sold as part of a feed product through long-term supply contracts and the time they are purchased to fulfill the contract.

The Company mitigates its exposure to commodity price risk to the extent practicable through several methods, including inventory management, the use of long-term purchase contracts, back-to-back buying and selling, and hedging on regulated futures and options markets. The degree to which the Company remains at risk at any time due to an incomplete hedge, however, poses no material risk to the Company's earnings.

Hogs

A declining portion of the Company's revenues is derived from the production and marketing of hogs. As a traded commodity, hog prices fluctuate on an ongoing basis, with some seasonal trending. The Company is therefore subject to risk of changing prices over time. The Company is continuing to address this risk, first, by exiting QSS, and second, by having Cotswold over time reduce its ownership of hogs.

Periodically, the Company will mitigate its exposure to fluctuating hog prices through the use of forward sales contracts negotiated with major hog processors or marketing agencies, together with futures and option hedging strategies.

Seasonality and Weather Conditions

The beef cattle feed segment of the Company's business is seasonal, with a higher percentage of feed sold and earnings generated during the second and third fiscal quarters. This seasonality is driven largely by weather conditions. If the weather is particularly cold during the winter, sales of feed for cattle increase as compared with normal seasonal patterns, because the cattle are unable to graze under those conditions and have high energy requirements. If the weather is relatively warm during the winter, sales of feed for cattle may decrease as compared with normal seasonal patterns, because the cattle are better able to graze under those conditions. Other product lines are affected only marginally by seasonal conditions.

The Company manages the risk associated with abnormal weather patterns by marketing a diversified product line which, besides beef cattle feed, includes feed for other livestock (dairy cattle, hogs, poultry, horses, sheep, etc.). The Company also sells livestock and farm supplies. It also manages this risk by geographically distributing its operations and hence, the market for its products. As a result, regional variations in weather impact only a portion of the Company's earnings at any one time.

Interest Rates

The Company finances a portion of its business through the use of several long-term variable rate credit facilities, which exposes the Company to some risk of loss as a result of interest rate movement.

The Company believes that the risk of material loss through increases in interest rates over the short term is minimal. The Company has, however, implemented a strategy to hedge interest rates on a significant portion of the total bank debt outstanding at any time. This strategy utilizes several hedging instruments including interest rate swaps and forward rate agreements. At June 30, 2002, approximately 87 percent of the Company's outstanding bank debt was hedged, using interest rate swaps with a variety of maturity dates extending for up to two and one-half years.

Foreign Exchange

The Company's Canadian Division makes some purchases and sales denominated in U.S. dollars. The Division is currently a net seller of U.S. dollars. The Company manages the risk associated with holding U.S. currency by monitoring its net position and entering into forward exchange contracts where warranted for individually material transactions or the net position. The Company at times maintains inter-company loans between the U.S. and Canadian operations. Forward exchange contracts are utilized to hedge fluctuations in foreign currency translation rates.

The Company's U.S. Division, Hubbard Feeds, is considered to be self-sustaining. There are no material transactions denominated in currencies other than U.S. dollars. Consequently, no hedging tools are employed by this operation.

The individual operating units within the Cotswold Division conduct the majority of their operations in their local currencies, but have some transactions in U.S. dollars and deutsche marks. Forward exchange contracts are entered into for individually material transactions or where net positions warrant.

Credit

The Company is subject to potential credit risk in the event of non-performance by its customers. This risk is minimized by a number of factors. The Company deals with a large customer base, consisting of both individuals and corporations, with no single customer representing more than 3 percent of the Company's total gross sales. The Company's customer base is also geographically dispersed and comprised of livestock producers representing several different livestock species. This tends to minimize the risk posed to the Company by economic downturns that are either species or regionally based.

In line with North American feed industry practice, the Company has traditionally entered into certain loan and collateral agreements with some of its key customers to facilitate growth and strengthen long-term relationships. The terms and conditions under which such funds are advanced have been revised with a greater emphasis on the levels of returns required and loan security sought. During the year the amount outstanding reduced by $3.1 million.

Insurance

The Company has significant investments in manufacturing and distribution facilities and inventory, and is subject to the risk of loss or impairment of earnings as a result of the partial or complete destruction of one or more of these facilities.

The Company manages this risk in several ways. First, the Company's facilities are geographically distributed across the continental United States and Canada. The risk of multiple facilities being lost as a result of a single peril is, therefore, minimized. Second, regular inspections of the Company's facilities are conducted by both management and representatives of the Company's insurance carrier, in order to minimize potential safety hazards. Finally, the Company maintains insurance coverage sufficient to cover any foreseeable material loss.

Acquisitions

During the fourth quarter, Ridley Inc. acquired a 51 percent interest in McCauley Bros., Inc. as the first step in a strategic plan to create a new business unit focused on nutrition and specialty products targeted exclusively for equine markets in North America. McCauley Bros., Inc. is located in Versailles, Kentucky, near Lexington, has a strong, established reputation in the equine community for quality and service, and has become the feed company of choice to many of the world's leading horse farms and stables. McCauley represents an important new niche segment of the feed industry that offers new growth opportunities for Ridley Inc.

Subsequent to June 30, 2002, the Company acquired 100% of Shamrock Feeds Ltd. located in Saskatoon, Saskatchewan. Shamrock Feeds manufactures a complete line of animal feeds.

Outlook

The Company was pleased with the results achieved in the feed and block operations during 2002. We are entering a new year that will be filled with challenges and opportunities. Both the U.S. feed operations and the Canadian feed operations face a market in which demand and prices are low and supplies of meat are high. This combination is expected to reduce livestock production. Both U.S. and Canadian feed operations will be focused on achieving aggressive growth among the leading customers showing potential for growth. Both operations will continue to improve operations by continuing cost controls and allocating resources to maintain volumes and returns. The block operations already command a strong market share, and expect continued growth and increased demand from new products that will expand the seasonal business. The feed and block businesses are positioned for further growth opportunities through acquisitions and have a goal to be positioned as a long-term competitor.

Despite the further, unexpected losses experienced by Cotswold in fiscal 2002, the Ridley organization took aggressive steps during the year to reduce our direct exposure to the disease and price risks associated with the pork production and genetics businesses. These steps, which included the completed exit of both the European Cotswold operations and QSS and the restructuring of North American Cotswold operations, will undoubtedly translate to significantly improved results in fiscal 2003. Despite the restructuring of the remaining North American Cotswold operations, the hog market outlook for fiscal 2003 is not favorable, and without significant improvement, we expect it will result in modest losses for Cotswold in fiscal 2003.

Those losses are directly related to Cotswold's ownership of hogs, an issue we began to address and will continue to address in fiscal 2003. This, combined with management's focus on lowering production costs, improving sales and executing an aggressive risk management plan, will further improve results in fiscal 2003. The exit from Quality Swine Systems (QSS) has reduced our exposure to hog prices in the future and has freed up working capital.

Improved operating results expected in fiscal 2003 will allow the Company to continue to reduce debt and interest expense. The combination of growth and cost controls in the operations, along with the elimination of Cotswold Europe losses, have generated optimism for fiscal 2003.

Consolidated Financial Statements

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Management Report

The accompanying consolidated financial statements of Ridley Inc. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's estimates and judgements. The financial information presented throughout the annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that assets are safeguarded and that the financial records are accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside, unrelated directors. The Committee meets with management, as well as external auditors, on a regular basis throughout the year to review internal accounting controls, audit results and other financial reporting issues. In addition, the Audit Committee considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors and reviews the consolidated financial statements with management and the external auditors prior to recommending their approval by the Board.

The consolidated financial statements as of June 30, 2002 and 2001 and for the years then ended have been audited on behalf of the shareholders by the external auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

R. B. Gallaway
President & Chief Executive Officer

M. S. Mitchell
Chief Financial Officer

August 16, 2002

Auditors' Report

To the Shareholders of Ridley Inc.

We have audited the consolidated balance sheets of Ridley Inc. as of June 30, 2002 and 2001 and the consolidated statements of earnings and retained earnings and of cash flows for the years ended June 30, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ridley Inc. as of June 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Canada

August 16, 2002

Consolidated Balance Sheets

(expressed in thousands of dollars)

	As of June 30	
	2002 ($000)	**2001** ($000)
Assets		
Current Assets		
Cash and short-term deposits	**1,639**	3,133
Accounts receivable	**50,716**	41,074
Inventories (*Note 5*)	**49,495**	53,759
Income taxes recoverable	**1,171**	4,998
Prepaids and other current assets	**2,088**	2,243
Current portion of loans receivable (*Note 6*)	**7,263**	10,044
Current assets of discontinued operations (*Note 3*)	**1,279**	5,744
	113,651	120,995
Loans receivable, less current portion (*Note 6*)	**18,787**	23,312
Breeding stock	**2,865**	3,258
Investments	**1,310**	2,359
Capital assets (*Note 7*)	**127,696**	131,571
Other assets	**3,810**	1,598
Goodwill (*Note 8*)	**60,534**	61,731
Non-current assets of discontinued operations (*Note 3*)	**1,021**	5,910
	329,674	350,734
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**60,211**	56,615
Current portion of long-term debt (*Note 9*)	**17,569**	13,394
Current liabilities of discontinued operations (*Note 3*)	**1,341**	3,397
	79,121	73,406
Long-term debt, less current portion (*Note 9*)	**80,743**	117,858
Future income taxes	**31,434**	27,933
Pensions and post-retirement benefits (*Note 10*)	**5,489**	5,280
Long-term liabilities of discontinued operations (*Note 3*)	**–**	6,423
	196,787	230,900
Shareholders' Equity		
Share capital (*Note 11*)	**82,098**	81,629
Minority interest	**308**	–
Cumulative foreign currency translation adjustment (*Note 12*)	**2,188**	4,959
Retained earnings	**48,293**	33,246
	132,887	119,834
	329,674	350,734

The accompanying notes constitute an integral part of the consolidated financial statements.

Approved by the Board of Directors

J.S. Keniry, Director

M.P. Bickford-Smith, Director

Consolidated Statements of Earnings & Retained Earnings

(expressed in thousands of dollars)

	Year Ended June 30	
	2002 ($000)	**2001** ($000)
Revenue	**689,792**	696,555
Cost of sales	**557,167**	564,359
Gross profit	**132,625**	132,196
Operating expenses		
Selling, general and administrative	**75,494**	75,662
Depreciation	**10,405**	10,042
Research and development	**1,369**	1,067
Amortization	**1,035**	354
Interest	**9,152**	12,760
Claim settlement (*Note* 13)	**(3,000)**	–
Loss on sale of investment	**999**	–
Other income, net	**(3,826)**	(3,604)
	91,628	96,281
Earnings before income taxes and goodwill amortization	**40,997**	35,915
Provision for income taxes (*Note* 16)		
Current	**10,588**	6,311
Future	**3,809**	6,505
	14,397	12,816
Minority share of net income	**68**	–
Earnings before goodwill amortization	**26,532**	23,099
Goodwill amortization, net of income taxes of $694 (2001 - $677)	**1,280**	1,037
Net earnings from continuing operations	**25,252**	22,062
Attributed to discontinued operations		
Loss from discontinued operations, net of income taxes (*Note* 3)	**(4,319)**	(18,104)
Loss on disposal of discontinued operations, net of income taxes	**(5,886)**	–
	(10,205)	(18,104)
Net earnings	**15,047**	3,958
Retained earnings, beginning of period	**33,246**	29,288
Retained earnings, end of period	**48,293**	33,246
Earnings per share from continuing operations – basic	**1.88**	1.65
– diluted	**1.85**	1.64
Net earnings per share – basic	**1.12**	0.30
– diluted	**1.10**	0.30

The accompanying notes constitute an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(expressed in thousands of dollars)

	Year Ended June 30	
	2002 ($000)	**2001** ($000)
Cash from (utilized for)		
Operating Activities		
Net earnings for the period	**15,047**	3,958
Items not affecting cash (*Note 17*)	**25,752**	31,594
	40,799	35,552
Net change in non-cash working capital balances related to operations:		
Accounts receivable	**(6,780)**	(1,053)
Inventories	**5,149**	(344)
Prepaid expenses	**181**	(364)
Accounts payable, accruals and other liabilities	**1,500**	68
Income taxes recoverable	**4,063**	602
Net cash from operating activities	**44,912**	34,461
Investing Activities		
Purchase of investments	**–**	(724)
Proceeds on disposal of capital assets	**2,534**	1,777
Proceeds on disposal of subsidiary (*Note 3*)	**351**	–
Business acquisition (*Note 4*)	**(1,466)**	–
Purchase of capital assets	**(7,338)**	(6,669)
Decrease in loans receivable	**4,324**	5,472
Other	**–**	(428)
Net cash utilized for investing activities	**(1,595)**	(572)
Financing Activities		
Repayment of long-term debt	**(61,262)**	(38,141)
Proceeds of long-term debt	**18,930**	–
Payment of finance costs	**(3,369)**	–
Issuance of share capital	**469**	–
Net cash utilized for financing activities	**(45,232)**	(38,141)
Effect of exchange rate changes on cash	**(85)**	(143)
Decrease in cash and short-term deposits	**(2,000)**	(4,395)
Net cash and short-term deposits – beginning	**3,950**	8,345
Net cash and short-term deposits – end	**1,950**	3,950
Cash of discontinued operations (*Note 3*)	**(311)**	(817)
Net cash and short-term deposits	**1,639**	3,133

The accompanying notes constitute an integral part of the consolidated financial statements.

1 Significant accounting policies and basis of presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada which require Ridley Inc. ("the Company") to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates. All amounts are in Canadian dollars unless otherwise specified.

Basis of consolidation
These consolidated financial statements include the assets and liabilities and results of operations of the Company and all controlled entities.

Revenue recognition
Revenue reflects sales of livestock feed, animal health supplies, livestock and farm supplies and equipment. Revenue from product sales is recorded on shipment.

Cash and short-term deposits
Cash and short-term deposits consist of cash and temporary investments with maturities of three months or less when purchased.

Inventories
Inventories are recorded at the lower of weighted average cost and net realizable value.

Breeding stock
Breeding stock is recorded at the lower of cost and net realizable value.

Investments
Investments represent investments in non-related corporations and are primarily accounted for at cost.

Capital assets and depreciation
Capital assets are recorded at historical cost less accumulated depreciation. Depreciation is provided on a straight-line basis at the following annual rates:

Buildings	40 years
Machinery and equipment	10-30 years
Computer equipment	3-5 years
Furniture and fixtures	10 years
Trucks, trailers and automobiles	5-10 years

Goodwill
Goodwill is amortized on a straight-line basis over an estimated useful life of 40 years. The Company reviews the carrying value of goodwill to determine if it has been permanently impaired. The measurement of possible impairment is based primarily on the ability to recover the balance of the goodwill from expected future operating cash flows on an undiscounted basis.

Commencing with the Company's 2003 fiscal year, the new recommendations of the Canadian Institute of Chartered Accountants Standards Section 3062 "Goodwill and Other Intangible Assets" will be implemented. Rather than being systematically amortized, the carrying value of goodwill and intangible assets with an indefinite life will be periodically tested for impairment. The frequency of the impairment testing generally will be dependent on the stability of the relevant events and circumstances, but intangible assets with indefinite lives must be tested at least annually. Both retroactive application and/or early adoption of these new principles are prohibited.

The Company is currently assessing goodwill and intangible assets with indefinite lives. Management expects no impairment writedown.

Other assets
Other assets include deferred financing and start-up costs, and licensing fees that are recorded at cost. Amortization of deferred financing costs is provided on a straight-line basis over the term of the related debt. Amortization of the breeding license is provided on a straight-line basis over the term of the license. Amortization of start-up costs is provided on a straight-line basis over periods of up to five years.

Income taxes
The Company utilizes the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using the enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the period in which the rate change occurs. When necessary, a valuation allowance is recorded to reduce future income tax assets to an estimated realizable amount that more likely than not will be realized.

Foreign operations
The accounts of self-sustaining foreign subsidiary companies are translated into Canadian dollars on the following basis:

- assets and liabilities at the exchange rate prevailing at the balance sheet date; and
- revenue and expenses at weighted average exchange rates for the year.

Adjustments arising from this translation are deferred and recorded as a separate item under shareholders' equity and are included in income only when a reduction in the net investment in these foreign operations is realized. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

Foreign currency transactions and balances
Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Exchange differences on these items are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

Derivative Financial Instruments
Derivative financial instruments that are designated as hedges and are effective as hedges of existing assets and liabilities for anticipated transactions ("hedged items") are accounted for on the same basis as the hedged items. Derivative financial instruments are not recognized in the financial statements at inception. Recognition of gains/losses relating to hedges of specific purchase/sale commitments is deferred until the underlying commitments are realized.

The Company uses derivative financial instruments in the management of its interest rate exposure, exposure to hog price fluctuations and ingredient price exposure. The company does not use derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company hedges its foreign currency exposures on foreign currency denominated intercompany debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. Corresponding translation losses and gains on the related foreign currency denominated debt offset translation gains and losses on the forward exchange contracts.

Interest rate swap agreements are used as part of the company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments which have been terminated or cease to be effective prior to maturity are deferred and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such a derivative instrument is recognized in net earnings.

Other income
Other income consists primarily of gains and losses on disposal of capital assets and investments, interest on loans and advances made to third parties with which the Company has trading relationships, interest on overdue accounts receivable and income on investments.

Employee future benefits
The Company maintains both defined benefit and defined contribution pension plans. The expense for the defined benefit plans is determined by actuarial valuations of pension plan assets and obligations using the projected benefit method. Current service costs are charged to earnings as they accrue, while past service amounts, experience gains and losses, and adjustments arising from plan amendments or changes in assumptions, are amortized to earnings on a straight-line basis over the expected average remaining service lives of plan members. For the defined contribution plans, the expense is the annual funding contribution required under the plans.

The Company provides health care benefits for eligible retired employees and their covered dependants. The Company accrues for these benefits over the period in which employees provide service to the date of their first eligibility for such benefits.

Earnings per share
Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the year.

The dilutive effect of outstanding stock options on earnings per share is based on the application of the treasury stock method. Under this method, the proceeds from the potential exercise of such stock options are assumed to be used to purchase common shares.

Stock option plan
The Company has a stock option plan that is described in Note 11. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

Reclassifications
Prior period amounts have been reclassified to conform to current year presentation. The reclassifications had no impact on net earnings or shareholders' equity as previously reported.

2 Accounting changes

In the first quarter of 2002, the dilutive effect of outstanding stock options was reflected in diluted earnings per share by application of the treasury stock method as required by the new Canadian Institute of Chartered Accountants Standards Section 3500 "Earnings Per Share". The standard was applied retroactively and did not have a material effect on diluted earnings per share as previously presented.

3 Discontinued operations/restructuring costs

On May 10, 2002 (the measurement date), the Company sold its European swine breeding and genetics operations (Cotswold Pig Development Co. Limited). Total consideration of $2.3 million includes cash of $351,000, a short-term receivable of $178,000, residual assets of $790,000 and a deferred receivable of $1,002,000 due three years from sale date. The transaction resulted in a loss of $5,886,000. The operating results of this discontinued operation are reported separately below net earnings from continuing operations in the consolidated statements of earnings and retained earnings. Certain employee benefit matters were settled as part of the sale. Terms of the sale agreement require related benefits to be adjusted if certain criteria are met over the period ending May 2008.

The assets and liabilities of the discontinued operations are as follows:

	2002 ($000)	2001 ($000)
Assets		
Cash	**311**	817
Accounts and other receivables	**161**	2,764
Inventories	**–**	1,879
Assets held for sale	**807**	–
Prepaids and other current assets	**–**	284
	1,279	5,744
Deferred receivable	**1,021**	–
Breeding stock	**–**	591
Capital assets	**–**	5,319
	2,300	11,654
Liabilities		
Accounts payable and accrued liabilites	**1,341**	3,397
Long-term debt	**–**	6,423
	1,341	9,820

The summarized operating results of the discontinued operations for fiscal year 2002 and for fiscal year 2001, to the date of disposal are as follows:

	2002 ($000)	2001 ($000)
Revenue	**19,957**	26,186
Loss before goodwill write-off and restructuring costs, net of tax recoveries	**(4,488)**	(6,128)
Goodwill writeoff	**–**	(10,525)
Restructuring costs	**169**	(1,451)
Loss from discontinued operations	**(4,319)**	(18,104)

In the fourth quarter of fiscal 2001, the Company initiated a strategic plan to restructure its European (U.K. and Germany) operations. These actions included personnel reductions, termination of certain contracts and other expense reductions. As a result of these actions, the Company recorded restructuring costs of $1,451,000. Furthermore, the carrying value of associated goodwill of $10,525,000 was written off in the fourth quarter of fiscal 2001.

	Year Ended June 30	
	2002	**2001**
Impact of discontinued operations on earnings per share:		
– basic	**(0.76)**	(1.36)
– diluted	**(0.75)**	(1.35)

The increase (decrease) in cash of discontinued operations is summarized below:

	2002 ($000)	**2001** ($000)
Net cash from operating activities	**(4,229)**	(6,187)
Net cash utilized for investing activities	**633**	(270)
Net cash from financing activities	**3,090**	6,587
Increase (decrease) in cash of discontinued operations	**(506)**	130

4 Business acquisitions

On April 26, 2002, the Company purchased a 51% share in McCauley Bros., Inc. McCauley Bros., Inc., located in Versailles, Kentucky, manufactures premium quality feeds and nutritional supplements for the equine market. This acquisition was accounted for using the purchase method of accounting; accordingly the financial statements include the results of operations of the acquired business from date of acquisition on a consolidated basis. The minority interest share of earnings and equity are shown separately in the financial statements. The acquisition included net assets of $121,000 and goodwill of $1,345,000 for total consideration paid of $1,466,000.

Subsequent to June 30, 2002, the Company acquired 100% of Shamrock Feeds Ltd. Shamrock Feeds Ltd., located in Saskatoon, Saskatchewan manufactures a complete line of animal feeds.

There were no business acquisitions in fiscal 2001.

(Tabular amounts expressed in thousands of dollars)

5 Inventories

	2002 ($000)	2001 ($000)
Raw materials	**20,908**	21,403
Finished goods	**24,172**	24,140
Livestock inventory	**4,415**	8,216
	49,495	53,759

6 Loans receivable

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. The loans bear interest primarily at rates between 4.75% and 9.0% with average terms of four years.

Loans are established within strict Company policy which typically require secured collateral from the customer and appropriate signed contractual documentation which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender.

7 Capital assets

		2002	
	Cost ($000)	Accumulated depreciation ($000)	Net book value ($000)
Land	**6,803**	**–**	**6,803**
Buildings	**56,466**	**7,633**	**48,833**
Machinery and equipment	**89,381**	**26,562**	**62,819**
Computer equipment	**4,065**	**3,178**	**887**
Furniture and fixtures	**4,328**	**2,747**	**1,581**
Trucks, trailers and automobiles	**8,877**	**5,517**	**3,360**
Leasehold improvements	**1,201**	**428**	**773**
Construction in progress	**2,640**	**–**	**2,640**
	173,761	**46,065**	**127,696**

		2001	
	Cost ($000)	Accumulated depreciation ($000)	Net book value ($000)
Land	7,724	–	7,724
Buildings	57,307	6,363	50,944
Machinery and equipment	84,884	20,158	64,726
Computer equipment	3,473	2,575	898
Furniture and fixtures	4,039	2,175	1,864
Trucks, trailers and automobiles	8,688	4,751	3,937
Construction in progress	1,478	–	1,478
	167,593	36,022	131,571

8 Goodwill

	2002 ($000)	2001 ($000)
Goodwill	**67,730**	67,056
Accumulated amortization	**(7,196)**	(5,325)
	60,534	61,731

9 Long-term debt

	2002 ($000)	2001 ($000)
Term credit facilities	**56,129**	92,498
Revolving credit facilities	**39,169**	42,596
Other facilities and debt	**2,407**	1,877
Capital lease obligations	**607**	704
	98,312	137,675
Less current portion	**17,569**	13,394
	80,743	124,281
Long-term debt of discontinued operations	**–**	(6,423)
Long-term debt	**80,743**	117,858

In the first half of fiscal 2002, the Company signed a North American loan note subscription agreement with a syndicate of five international banks. The agreement is subordinated and bound to the general loan facility held by its affiliate, Ridley Corporation Limited. The multi-currency facility for $154 million replaces the Company's previous banking agreement. Interest rates for loan notes issued under the Canadian facilities are based on the Canadian loan note rate. This rate is the weighted average of the annual rates quoted by the lenders under the loan note agreement. Interest rates for loan notes issued under the U.S. facilities are based on London Interbank Offer Rate. A general security agreement over all property is maintained as collateral for the facility.

Term loan facilities

As of June 30, 2002, the term credit facilities consist of the following:

- A facility authorized up to $14,000,000. At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the Canadian loan note rate.

  As of June 30, 2002, $14,000,000 was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 4.10%.

- A facility authorized up to U.S. $28,000,000. At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the London Interbank Offer Rate.

  As of June 30, 2002, U.S. $28,000,000 was outstanding and the weighted average effective cost of borrowing, including the applicable margin was 3.33%.

  The term credit facilities are repayable in 14 quarterly principal installments commencing July 18, 2002, with a final payment of the balance of principal and interest due on October 18, 2005. As of June 30, 2002, the quarterly installments are $1,000,000 and U.S. $2,000,000.

As of June 30, 2001, the non-revolving term credit facilities consisted of the following:

- A facility authorized up to $9,500,000 (or U.S. $5,000,000 with remainder to be drawn in Canadian dollars). At the Company's option, the interest rates on these facilities could be fixed for varying periods based on the bank's prime rate in Canada, Bankers Acceptances, London Interbank Offer Rate or the U.S. base rate.

  As of June 30, 2001, $9,500,000 was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 8.71%.

- A facility authorized up to U.S. $36,660,000. At the Company's option, the interest rates on these facilities could be fixed for varying periods based on the London Interbank Offer Rate or the U.S. base rate.

  As of June 30, 2001, U.S. $36,660,000 was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 9.23%.

- A facility authorized up to U.S. $8,345,700. At the Company's option, the interest rates on these facilities could be fixed for varying periods based on the London Interbank Offer Rate or the U.S. base rate.

  As of June 30, 2001, U.S. $8,345,700 was outstanding and the weighted average effective cost of borrowing, including the applicable margin was 8.50%.

- A facility authorized up to £6,884,500 pounds sterling. Interest rates on the facility could be fixed for varying periods based on the London Interbank Offer Rate.

  As of June 30, 2001, £6,884,500 pounds sterling was outstanding and the weighted average effective cost of borrowing, including the applicable margin was 8.78%.

  The term credit facilities were repayable in 19 quarterly principal installments commencing January 1, 2001, with a final payment of the balance of principal and interest due on October 1, 2005.

Revolving cash advance facilities

As of June 30, 2002, the revolving credit facilities consist of the following:

- A facility authorized up to $36,000,000. At the Company's option, the interest rates on the facility may be fixed for varying periods based on the Canadian loan note rate.

  As of June 30, 2002, $5,000,000 was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 4.10%.

- A facility authorized up to U.S. $38,000,000. At the Company's option, the interest rates on the facility may be fixed for varying periods based on the London Interbank Offer Rate.

  As of June 30, 2002, U.S. $22,710,000 was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 3.32%.

  The revolving credit facilities expire on October 18, 2005.

As of June 30, 2001, the revolving credit facilities consisted of the following:

- A facility authorized up to $25,542,520 or the U.S. dollar equivalent. At the Company's option, the interest rates on the facility could be fixed for varying periods based on the bank's prime rate in Canada, Bankers Acceptances, London Interbank Offer Rate or the U.S. base rate.

  As of June 30, 2001, $8,775,000 was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 7.07%.

- A facility authorized up to U.S. $20,000,000. At the Company's option, the interest rates on the facility could be fixed for varying periods based on the bank's U.S. dollar base rate or the London Interbank Offer Rate.

  As of June 30, 2001, U.S. $10,000,000 was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 6.51%.

- A facility authorized up to £3,000,000 pounds sterling. Interest rates on the facility could be fixed for varying periods based on the London Interbank Offer Rate.

  As of June 30, 2001, £3,000,000 pounds sterling was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 7.27%.

- A facility authorized up to U.S. $8,000,000. At the company's option, the interest rates on the facility could be fixed for varying periods based on the bank's U.S. dollar base rate or the London Interbank Offer Rate.

  As of June 30, 2001, U.S. $8,000,000 was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 5.94%.

Other facilities and debt consist of:

An open line of credit authorized up to U.S. $1,500,000. Interest rates are based on the bank's prime rate. Interest rates, including applicable margins, ranged from 4% to 6% during fiscal 2002. As of June 30, 2002, U.S. $400,000 (2001 – U.S. $1,000,000) was outstanding.

Notes payable are payable on demand at an interest rate of 6.0%. As of June 30, 2002, U.S. $214,000 was outstanding (2001 - nil).

A subsidiary has bank debt of U.S. $985,000 as of June 30, 2002 (2001 – nil).

Capital lease obligations consist of the present value of payments related to specified leased transportation equipment, payable at various dates through fiscal 2005.

As of June 30, 2002, the aggregate amount of principal payments estimated in each of the next five years and thereafter was as follows:

	($000)
June 30, 2003	17,569
2004	56,400
2005	16,643
2006	7,700
Total	98,312

10 Pensions and post-retirement benefits

The Company has non-contributory deferred benefit pension plans covering substantially all of its U.S. employees. The benefits for salaried employees are based on years of service and the employees' level of compensation during specified periods of employment. The plan covering hourly employees generally provides benefits of stated amounts for each year of service. The Company's funding policy is consistent with statutory regulations and equals the amount deducted for income tax purposes. Prior service costs are amortized over the average future service period of active plan participants. Plan assets include equity and fixed-income securities.

The Company provides post-retirement health care benefits for U.S. employees. These benefits are supplemental to statutory provided health care costs. Post-retirement life insurance benefits are provided for a limited period of time. The components of these expenses are not shown separately as they are not material. The costs of post-retirement health care and life insurance benefits are determined under the per capita claims cost method. Under this method, the Company's obligations are fully accrued by the date the employees attain full eligibility for such benefits. These plans are unfunded.

The change in the financial status of the pension plans and other post-retirement obligations and amounts recognized in the consolidated financial statements as of June 30, 2002 and 2001 are:

	Pension		Other benefits	
	2002 ($000)	2001 ($000)	2002 ($000)	2001 ($000)
Change in benefit obligations				
Benefit obligations – beginning of year	**13,554**	10,910	**2,228**	1,737
Service cost	**1,311**	779	**300**	214
Interest cost	**1,065**	856	**163**	135
Amendments	**16**	352	**–**	–
Actuarial gain (loss)	**1,189**	568	**(22)**	108
Benefits paid	**(268)**	(200)	**(25)**	(12)
Effect of foreign currency translation	**(291)**	289	**(43)**	46
Benefit obligations – end of year	**16,576**	13,554	**2,601**	2,228
Change in plan assets				
Fair value plan assets – beginning of year	**11,443**	9,705	**–**	–
Actual return on plan assets	**(541)**	149	**–**	–
Employer contribution	**1,476**	1,533	**–**	–
Benefits paid	**(268)**	(200)	**–**	–
Effect of foreign currency translation	**(159)**	256	**–**	–
Fair value plan assets – end of year	**11,951**	11,443	**–**	–
Fund status	**(4,625)**	(2,111)	**(2,601)**	(2,228)
Unrecognized net actuarial loss (gain)	**1,736**	(979)	**21**	23
Unrecognized prior service cost (benefit)	**472**	516	**(492)**	(501)
Accrued benefit cost	**(2,417)**	(2,574)	**(3,072)**	(2,706)

The Company's net benefit plan expense is as follows:

	Pension		Other benefits	
	2002 ($000)	2001 ($000)	2002 ($000)	2001 ($000)
Current service cost	**1,311**	779	**300**	214
Interest cost	**1,065**	856	**163**	135
Expected return on plan assets	**(1,089)**	(926)	**–**	–
Amortization of prior service cost	**55**	23	**3**	3
Amortization of (gain)/loss	**–**	(106)	**(27)**	(32)
	1,342	626	**439**	320

Weighted average actuarial assumptions as of June 30:

	Pension		Other benefits	
	2002	2001	2002	2001
Discount rate	**7.5%**	7.5%	**7.3%**	7.5%
Expected return on plan assets	**9.0%**	9.0%		
Rate of compensation increase	**4.0%**	4.0%		
Health care cost trend rate			**8.5%**	8.5%
Decreasing to ultimate trend rate			**5.0%**	5.3%

It is anticipated that the health care cost trend will decrease from 8.5% in fiscal 2003 to 5.0% in fiscal 2009.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effect on cost components and benefit obligations:

	1% Percentage point ($000)	
	Increase	**Decrease**
Medical service cost and interest cost	73	(56)
Accumulated benefit obligation	376	(289)

The Company also provides defined contribution plans for substantially all U.S. and Canadian employees. The Company's contributions amounted to $1,590,000 in 2002 and $1,533,000 in 2001.

11 Share capital

	2002 ($000)	2001 ($000)
Authorized		
Unlimited number of common shares, no par value		
Issued		
13,409,600 common shares (2001 – 13,337,500)	**82,098**	81,629

As of June 30, 2002, Ridley Corporation Limited held 70.0% of Ridley Inc.'s common shares. The number of shares issued increased during fiscal 2002 due to the exercise of options.

The following is a reconciliation of the basic and diluted shares outstanding as of June 30, 2002 and 2001:

	2002	2001
Shares outstanding – basic	**13,409,600**	13,337,500
Incremental shares	**256,197**	76,168
Shares outstanding – diluted	**13,665,797**	13,413,668

(Tabular amounts expressed in thousands of dollars)

As of June 30, 2002, 224,000 (2001 – 551,000) options to purchase common shares were not included in the calculations of diluted earnings per share as the exercise price exceeded the average market prices of the shares during the year.

Stock option plan

Under the terms of the Company's stock option plan, approved by shareholders at the Annual and Special Meeting of Shareholders on November 6, 1998, options to purchase common shares of the Company may be granted by the Board of Directors or the Compensation Committee of the Board, to directors, officers, employees and service providers of the Company or its affiliates or subsidiaries. The stock option plan provides that the aggregate number of common shares which may be reserved for issuance under the stock option plan cannot exceed 10% of the common shares of the Company then outstanding.

	2002		2001	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Stock options outstanding – beginning of year	**926,000**	**7.20**	649,000	8.46
Changes pursuant to				
Options granted	**–**	**–**	387,000	5.38
Options cancelled	**(103,000)**	**7.39**	(110,000)	8.23
Options exercised	**(72,100)**	**6.50**	–	–
Stock options outstanding – end of year	**750,900**	**7.24**	926,000	7.20

The following stock options to purchase common shares were outstanding as of June 30, 2002:

Date granted	Exercise price	Vesting date	Expiry date	Number outstanding
Sept. 3, 1998	$10.65	Sept. 3, 2000	Sept. 3, 2004	224,000
Dec. 1, 1999	$6.50	Dec. 1, 2001	Dec. 1, 2005	191,900
Nov. 6, 2000	$5.38	Nov. 6, 2002	Nov. 6, 2006	335,000
				750,900

The options granted on September 3, 1998 vest over the period from September 3, 2000 through September 3, 2002. All other options are fully vested two years subsequent to the date granted. The options granted are subject to the terms and conditions set out in the stock options agreement.

12 Cumulative foreign currency translation adjustments

The cumulative foreign currency translation adjustment account primarily reflects the net changes in the respective book values of the Company's investments in self-sustaining U.S. and U.K. operations due to exchange rate fluctuations since the respective dates of acquisition.

	2002 ($000)	**2001** ($000)
Balance – beginning of year	**4,959**	2,784
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	**(1,849)**	1,170
Effect of exchange rate variation on translation of items designated as hedges of net investments in self-sustaining foreign operations	**(1,219)**	1,005
Effect of exchange rate variation on translation of items designated as hedges on foreign currency denominated transactions	**297**	–
Balance – end of year	**2,188**	4,959

13 Claim settlement

A claim settlement was received in fiscal 2002 from suppliers in Canada resulting in a gain of $3,000,000.

14 Financial instruments

Fair value of financial instruments
The carrying value of the Company's recognized financial instruments which include cash, accounts receivable, loans and advances receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt approximate their fair value.

Credit risk
The Company, in the normal course of business, is exposed to credit risk from its customers. The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable and loans receivable. The Company performs regular credit evaluations on all of its customers.

Accounts receivable are primarily short-term receivables from customers which arise in the normal course of business.

One customer comprised 38% of the total loans receivable balance as of June 30, 2002 (2001 – 34%).

(Tabular amounts expressed in thousands of dollars)

Interest rate risk

The Company enters into derivative financial instruments in order to hedge its risk against interest rate fluctuations. The Company has fixed its variable rate long-term borrowing obligations with the following outstanding interest rate swap agreements:

Notional amount	Interest rate	Term of agreement	Repricing period
U.S. $10,000,000	2.55%	January 29, 2003	3 months
U.S. $10,000,000	3.55%	December 24, 2003	3 months
U.S. $10,000,000	4.34%	December 24, 2004	3 months
U.S. $10,000,000	7.11%	December 24, 2004	3 months
C $5,000,000	3.51%	January 29, 2004	3 months
C $20,000,000	5.90%	January 4, 2005	3 months

The unrealized loss on these instruments is $5,087,356 as of June 30, 2002.

Foreign exchange risk

The Company at times enters into forward foreign exchange contracts to hedge future sales denominated in foreign currencies. The Company also may enter into forward foreign exchange contracts to hedge intercompany loans denominated in foreign currencies. The terms of the foreign exchange contracts are less than one year. As of June 30, 2002, the Company had contracted to sell U.S. $12,000,000 at a Canadian equivalent of $18,352,500. As of June 30, 2002, the unrealized loss on open forward foreign exchange contracts was $297,500. There were no contracts outstanding as of June 30, 2001.

Commodities risk

The Company enters into options contracts to secure a selling price floor on its inventory of swine. The Company also enters into option contracts to protect it from increasing prices in feed ingredients consumed in the production of swine. As of June 30, 2002, the unrealized loss on lean hog options contracts was U.S. $337,588. As of June 30, 2002, the Company also had corn and soybean option contracts at various positions totalling a U.S. $63,350 unrealized gain. The terms of the commodity contracts are less than one year.

15 Commitments and contingencies

As of June 30, 2002, the Company was committed to making payments as follows:

	Operating leases ($000)	Producer agreements ($000)	Livestock purchase commitments ($000)
June 30, 2003	2,989	2,045	5,912
2004	1,859	1,482	4,754
2005	1,252	1,291	4,176
2006	898	1,205	3,978
2007	331	624	1,861
Thereafter	1	95	725

The Company leases vehicles, buildings, and office equipment. The total rent expense for fiscal 2002 was $4,589,000.

The Company contracts with third party producers pursuant to various swine production agreements, grow-out and feeding agreements. Under the terms of the agreements, livestock owned by the Company is managed and maintained in the producers' facilities for which the Company pays the producer a management fee.

The Company contracts with third party producers pursuant to various weanling supply agreements. Under the terms of the agreements, all livestock raised by the producer must be delivered to the Company at a specified price.

Guarantees
The Company has undertaken to guarantee the debts and obligations of various customers. As of June 30, 2002, these guarantees total $570,000 and U.S. $4,310,399.

Legal actions and other
The Company has been named as a co-defendant in certain product liability legal actions. Management believes that these claims are without merit. The Company has insurance coverage for these claims and the insurance companies have undertaken the defence of these claims. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements.

In the fourth quarter of fiscal 2001, the Company recorded a gain of $992,000 in cost of sales related to an outstanding matter.

16 Income taxes

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate tax rates for the following reasons:

	2002 ($000)	2001 ($000)
Earnings before income taxes and goodwill amortization	**40,997**	35,915
Combined statutory tax rate	**39.6%**	41.7%
Tax payable based on statutory tax rate	**16,234**	14,977
Non-allowable expenses	**713**	810
Effect of foreign income tax rates and foreign deductions	**(3,518)**	(2,975)
Effect of current year operating losses not recognized	**931**	-
Other	**37**	4
Provision for income taxes before tax benefit from goodwill amortization	**14,397**	12,816
Tax benefit from goodwill amortization	**(694)**	(677)
Net provision for income taxes	**13,703**	12,139

A wholly-owned Canadian subsidiary of the Company has cumulative non-capital losses of approximately $4.2 million. The losses begin to expire in 2003. A full valuation allowance has been taken on these tax loss carry forwards.

17 Statement of cash flow disclosures

	2002 ($000)	2001 ($000)
Earnings items not affecting cash		
Goodwill amortization	**1,974**	12,506
Depreciation of capital assets	**11,022**	10,857
Future income taxes	**3,833**	7,351
Diminution in value of breeding stock	**638**	587
(Gain) loss on sale of fixed assets	**(428)**	190
Loss on sale of subsidiary (Note 3)	**5,886**	–
Loss on sale of investment	**999**	–
Other items not affecting cash	**793**	(251)
Other amortization	**1,035**	354
	25,752	31,594

The following amounts were paid on account of interest and taxes:

	2002 ($000)	2001 ($000)
Interest	**15,243**	14,564
Income taxes	**5,005**	3,383

18 Segmented information

The company operates three segments that have been segregated on the basis of geographic regions and products and services provided.

The Canadian Division manufactures and distributes livestock feed to customers primarily in the prairie region. The products include a full range of complete feeds and supplements and are marketed directly to agricultural producers. The Canadian Division also operated a market hog operation that utilizes feed products from the feed milling operation to finish hogs for commercial slaughter. Revenue attributable to hog sales is $12,537,000 (2001 - $34,423,000). The Company exited the market hog operation in fiscal 2002.

The U.S. Division manufactures and distributes livestock feed to customers primarily in the U.S. Midwest. The products include a full range of complete feeds and supplements and are marketed both through a dealership network as well as directly to agricultural producers.

The Cotswold Division is engaged in the development and sale of swine genetics. The division operates through a subsidiary in Canada and a division in the United States. Revenues are derived through the sale of breeding stock, by-product, and royalty fees.

The Company evaluates performance based on operating income. Operating income is defined as earnings before interest, taxes, goodwill amortization and other unusual items.

Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands of dollars)

An analysis of segment information is as follows:

	Canadian Division		U.S. Division		Cotswold Division		Unallocated		Total	
	2002 ($000)	2001 ($000)	2002 ($000)	2001 ($000)	2002 ($000)	2001 ($000)	2002 ($000)	2001 ($000)	2002 ($000)	2001 ($000)
Revenue	**189,657**	185,283	**473,886**	487,574	**26,249**	23,698	**–**	–	**689,792**	696,555
Cost of sales	**159,311**	153,119	**374,491**	390,965	**23,365**	20,275	**–**	–	**557,167**	564,359
Gross profit	**30,346**	32,164	**99,395**	96,609	**2,884**	3,423	**–**	–	**132,625**	132,196
	16.0%	17.4%	**21.0%**	19.8%	**11.0%**	14.4%			**19.2%**	19.0%
Operating expenses										
Selling, G&A	**17,620**	18,832	**49,351**	50,580	**4,975**	3,909	**3,548**	2,341	**75,494**	75,662
Depreciation and amortization	**1,816**	1,882	**8,331**	8,072	**589**	371	**704**	71	**11,440**	10,396
Research & development	**27**	74	**791**	654	**551**	327	**–**	12	**1,369**	1,067
	19,463	20,788	**58,473**	59,306	**6,115**	4,607	**4,252**	2,424	**88,303**	87,125
Operating income	**10,883**	11,376	**40,922**	37,303	**(3,231)**	(1,184)	**(4,252)**	(2,424)	**44,322**	45,071
Interest expense									**9,152**	12,760
Claims settlement (income)									**(3,000)**	–
Loss on sale of investment									**999**	–
Other income, net									**(3,826)**	(3,604)
Net earnings before the following									**40,997**	35,915
Provision for income taxes									**14,397**	12,816
Goodwill amortization									**1,280**	1,037
Minority interest share of net earnings									**68**	–
Net income from continuing operations									**25,252**	22,062
Attributed to discontinued operations									**(10,205)**	(18,104)
Net earnings for the year									**15,047**	3,958
Total assets-continuing operations	**89,097**	91,779	**216,648**	229,122	**17,845**	18,179	**3,784**	–	**327,374**	339,080
Capital assets and goodwill-continuing operations	**46,581**	46,489	**137,387**	142,420	**4,262**	4,393	**–**	–	**188,230**	193,302
Total assets-discontinued operations							**2,300**	11,654	**2,300**	11,654

Revenues, capital assets and goodwill by geographic area are as follows:

	Revenue		Capital assets & goodwill	
	2002 ($000)	2001 ($000)	2002 ($000)	2001 ($000)
United States	**482,733**	509,516	**138,102**	143,187
Canada	**206,839**	187,039	**50,128**	50,115
Other	**220**	–	**–**	–
Total	**689,792**	696,555	**188,230**	193,302

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McCAULEY'S

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Financial Calendar 2002 – 2003*

Following are the anticipated dates on which the Company will announce its results of operations:

First quarter report to September 30	November 13, 2002
Second quarter report to December 31	**February 21, 2003**
Third quarter report to March 31	May 15, 2003
Year-end results to June 30	**August 22, 2003**

* Subject to change

Trading Symbol: RCL on The Toronto Stock Exchange

The following trade names are owned or licensed by Ridley Inc. and its subsidiaries: Ridley, Feed-Rite, Hubbard Feeds, Cotswold Swine Genetics, Wayne Feeds, Ridley Feed Ingredients, Ridley Block Operations, Daco Western Canada, Farmix, CRYSTALYX®, McCauley's®, Post Time®.

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